

AUDITED FINANCIAL STATEMENTS

**CYMAT TECHNOLOGIES LTD.**

April 30, 2017 and April 30, 2016

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## **AUDITED FINANCIAL STATEMENTS**

**Years ended April 30, 2017 and April 30, 2016**

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# Independent auditor's report

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To the Shareholders of  
**Cymat Technologies Ltd.**

We have audited the accompanying financial statements of Cymat Technologies Ltd., which comprise the statements of financial position as at April 30, 2017 and 2016, and the statements of operations, comprehensive loss and deficit, statements of changes in deficiency and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

## Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting

policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Cymat Technologies Ltd. as at April 30, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

### Emphasis of matter

Without modifying our opinion, we draw attention to Note 1 to the financial statements which indicates the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. These material uncertainties result from the company's history of losses as well as the shareholders' deficiency. Management's plans in regard to these matters are also described in Note 1 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.



Mississauga, Canada  
August 18, 2017

Chartered Professional Accountants  
Licensed Public Accountants

# STATEMENTS OF FINANCIAL POSITION

As at:	April 30, 2017 \$	April 30, 2016 \$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	458,388	171,689
Restricted cash	14,000	14,000
Trade and other receivables	120,840	167,074
Inventory [Note 5]	128,676	180,038
Prepaid expenses	14,130	14,197
<b>Total current assets</b>	<b>736,034</b>	<b>546,998</b>
Other assets	27,930	27,930
Property, plant and equipment, net [Note 6]	232,038	286,771
Licenses and technology rights [Note 7]	-	-
<b>Total assets</b>	<b>996,002</b>	<b>861,699</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	704,504	761,603
Deferred revenue	43,230	290,037
Current portion of deferred rent liability	8,802	8,802
Current portion of accrued royalties [Note 8]	187,986	183,675
Current portion of repayable government contributions [Note 9]	-	76,855
Current portion of convertible debentures [Note 10]	2,875,766	27,491
<b>Total current liabilities</b>	<b>3,820,288</b>	<b>1,348,463</b>
<b>Non-current liabilities</b>		
Deferred rent liability	2,200	11,002
Accrued royalties [Note 8]	347,796	360,669
Convertible debentures [Note 10]	-	2,431,869
<b>Total liabilities</b>	<b>4,170,284</b>	<b>4,152,003</b>
<b>DEFICIENCY</b>		
Share capital [Note 11]	66,679,985	65,796,521
Contributed surplus	6,759,770	6,583,320
Equity portion of convertible debentures [Note 12]	338,912	344,878
Warrants [Note 13]	452,764	346,770
Deficit	(77,405,713)	(76,361,793)
<b>Total deficiency</b>	<b>(3,174,282)</b>	<b>(3,290,304)</b>
<b>Total liabilities and deficiency</b>	<b>996,002</b>	<b>861,699</b>

See accompanying Notes

On behalf of the Board:

*Michael Liik*  
Director

*Jon Gill*  
Director

# STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

	Years Ended	
	April 30 2017	April 30 2016
	\$	\$
<b>Revenues</b>	<b>2,751,836</b>	<b>1,354,841</b>
Plant operating expenses	1,630,267	1,164,872
Research and material testing expenses	4,110	5,138
Selling, general and administrative expenses	1,358,168	1,092,040
	<b>2,992,545</b>	<b>2,262,050</b>
Loss from operations	<b>(240,709)</b>	<b>(907,209)</b>
Foreign exchange loss	(19,350)	10,432
Interest and financing expense [Notes 8, 9 and 10]	(783,861)	(616,599)
	<b>(803,211)</b>	<b>(606,167)</b>
<b>Net loss and comprehensive loss for the period</b>	<b>(1,043,920)</b>	<b>(1,513,376)</b>
Deficit, beginning of the period	(76,361,793)	(74,848,417)
Net loss	(1,043,920)	(1,513,376)
<b>Deficit, end of the period</b>	<b>(77,405,713)</b>	<b>(76,361,793)</b>
<b>Basic and diluted net loss per share</b>	<b>(0.06)</b>	<b>(0.10)</b>
<b>Weighted average number of shares:</b>		
Basic and diluted	16,198,015	14,464,620

*See accompanying Notes*

## STATEMENTS OF CHANGES IN DEFICIENCY

	Common Shares		Contributed	Equity Portion of Convertible			Total
	#	\$	Surplus	Debentures	Warrants	Deficit	Shareholders'
			\$	\$	\$	\$	Deficiency
							\$
<b>May 1, 2015</b>	<b>14,457,180</b>	<b>65,782,189</b>	<b>5,983,031</b>	<b>304,738</b>	<b>843,895</b>	<b>(74,848,417)</b>	<b>(1,934,564)</b>
Expiration of warrants	-	-	538,150	-	(538,150)	-	-
Stock-based compensation and consulting fees	-	-	64,632	-	-	-	64,632
Issuance of convertible debentures	-	-	-	41,026	41,025	-	82,051
Conversion of convertible debenture	50,000	9,338	-	(886)	-	-	8,452
Exercise of employee stock options	17,306	4,994	(2,493)	-	-	-	2,501
Net loss for the period	-	-	-	-	-	(1,513,376)	(1,513,376)
<b>April 30, 2016</b>	<b>14,524,486</b>	<b>65,796,521</b>	<b>6,583,320</b>	<b>344,878</b>	<b>346,770</b>	<b>(76,361,793)</b>	<b>(3,290,304)</b>
Stock-based compensation and consulting fees	-	-	185,322	-	-	-	185,322
Equity issued by private placement	2,500,000	347,725	-	-	149,025	-	496,750
Conversion of convertible debenture	250,000	53,999	-	(5,966)	-	-	48,033
Exercise of warrants	1,683,750	463,968	-	-	(43,031)	-	420,937
Exercise of employee stock options	55,810	17,772	(8,872)	-	-	-	8,900
Net loss for the period	-	-	-	-	-	(1,043,920)	(1,043,920)
<b>April 30, 2017</b>	<b>19,014,046</b>	<b>66,679,985</b>	<b>6,759,770</b>	<b>338,912</b>	<b>452,764</b>	<b>(77,405,713)</b>	<b>(3,174,282)</b>

*See accompanying Notes*

## STATEMENTS OF CASH FLOWS

	Years Ended	
	April 30	April 30
	2017	2016
	\$	\$
<b>Cash and cash equivalents provided by (used in):</b>		
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	(1,043,920)	(1,513,376)
Add items not involving cash		
Depreciation and amortization	64,881	83,850
Interest on repayable government contributions	570	2,911
Interest on convertible debentures [Note 10]	151,297	154,188
Stock-based compensation expense [Note 14]	180,201	51,897
Stock-based consulting fees [Note 14]	5,121	12,735
Non-cash interest and financing expense [Notes 8 and 10]	304,580	240,556
	(337,270)	(967,239)
Changes in non-cash working capital		
balances related to operations:		
Trade and other receivables	46,234	4,901
Inventory	51,362	31,041
Prepaid expenses	67	5,875
Trade and other payables	(57,099)	132,768
Deferred revenue	(246,807)	284,170
Deferred rent liability	(8,802)	(8,802)
<b>Cash used in operating activities</b>	<b>(552,315)</b>	<b>(517,286)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(10,148)	(78,988)
<b>Cash used in investing activities</b>	<b>(10,148)</b>	<b>(78,988)</b>
<b>FINANCING ACTIVITIES</b>		
Issuance of common shares and warrants	496,750	-
Repayment of government contributions	(77,425)	-
Proceeds from exercise of warrants	420,937	-
Proceeds from exercise of employee options	8,900	2,501
Proceeds from convertible debenture issuance	-	463,000
<b>Cash provided by financing activities</b>	<b>849,162</b>	<b>465,501</b>
<b>Net increase (decrease) in cash and cash equivalents during the period</b>	<b>286,699</b>	<b>(130,773)</b>
Cash and cash equivalents, beginning of period	171,689	302,462
<b>Cash and cash equivalents, end of period</b>	<b>458,388</b>	<b>171,689</b>
<b>Supplemental cash flow information</b>		
Interest and financing expenses paid	332,203	215,112

See accompanying Notes



**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended April 30, 2017 and April 30, 2016**

## **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 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 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 Company has incurred significant operating losses and cash outflows from operations. As at April 30, 2017, 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. Subsequent to the year end, the Company raised gross proceeds of \$1,359,759 from the exercise of warrants, and all of the outstanding convertible debentures were converted into common shares (See note 22). 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.

## **2. BASIS OF PRESENTATION**

These financial statements have been prepared in accordance with International Financial Reporting Standards ["IFRS"] as issued by the International Accounting Standards Board ["IASB"] and interpretations of the International Financial Reporting Interpretations Committee ["IFRIC"].

The financial statements are presented in Canadian dollars which is the functional currency of the Company.

These financial statements have been prepared on the basis of IFRS in effect as of May 1, 2016. The Company's Board of Directors approved these financial statements on August 18, 2017.

**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended April 30, 2017 and April 30, 2016**

### **3. SIGNIFICANT ACCOUNTING POLICIES**

Outlined below are those policies considered particularly significant:

#### **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 valuation of the accrued royalties, including the forecasted revenues and the appropriate discount rate to apply in the determination of present value (Note 8),
- 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 (Notes 10, 12 and 13),
- 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 (Note 14).
- 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, and
- 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 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 as a derivative liability.

#### **Revenue recognition**

Revenue from the sale of manufactured products is recognized when the risks and rewards 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.

#### **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.

**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended April 30, 2017 and April 30, 2016**

**Financial instruments**

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the financial asset and settle the liability simultaneously. At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired, as follows:

- (i) *Financial assets and liabilities at fair value through profit or loss.* A financial asset or liability is classified in this category if acquired principally for the purpose of selling. Derivatives are also included in this category unless designated as hedges. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed to income in the statement of operations and comprehensive income (loss). Gains and losses arising from changes in fair value are presented in the statement of operations and comprehensive income (loss) within other gains and losses in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized beyond twelve months of the balance sheet date, which is classified as non-current. The Company has no financial assets in this category. The accrued royalty is treated as a financial liability at fair value through profit or loss. At the end of each reporting period, the royalty accrual is recalculated and changes attributable to changes in the timing and amounts of estimated future cash flows are included in interest expense.
- (ii) *Loans and receivables.* Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise cash and cash equivalents, restricted cash, and trade and other receivables and are classified as current, except for the portion expected to be realized or paid beyond twelve months of the balance sheet date, which are classified as non-current. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.
- (iii) *Financial liabilities at amortized cost.* Financial liabilities at amortized cost include trade and other payables, repayable government contributions and the liability portion of convertible debentures. Trade and other payables are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, trade and other payables are measured at amortized cost using the effective interest method. Repayable government contributions and the convertible debt liability are recognized initially at fair value and subsequently at amortized cost using the effective interest method. At the end of each reporting period, interest accretion related to repayable government contributions and the convertible debt and changes in value attributable to changes in the timing of estimated future cash flows are included in interest expense. Financial liabilities are classified as current liabilities if payment is due within twelve months of the balance sheet date. Otherwise, they are presented as non-current liabilities.

**Inventory**

The Company's inventory consists of raw materials, work-in-process and finished goods, 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.

**NOTES TO FINANCIAL STATEMENTS**  
For the Years Ended April 30, 2017 and April 30, 2016

**Property, plant and equipment**

Property, plant and equipment are recorded at their historical cost, and presented on the 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.

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.

**Income taxes**

Income tax expense is recognized in the statement of operations and comprehensive income (loss), except to the extent that it relates to items recognized directly in comprehensive income (loss) or equity, in which case income taxes are also recognized directly in comprehensive income (loss) or equity. If business combinations occur, income taxes may also be recognized in the business combination. Current income taxes are the expected taxes payable on the taxable income for the year, using income tax rates enacted, or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred income taxes are the amount of income taxes expected to be paid or recoverable in future periods in respect of temporary differences, carry-forward of unused tax losses and carry-forwards of unused tax credits. Deferred income taxes arise between the tax base - the amount attributed to the asset or liability for income tax purposes rather than the amount used in the computation of taxable income - and their carrying values in the financial statements as well as on unused tax

**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended April 30, 2017 and April 30, 2016**

losses and tax credits. Deferred income taxes are determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet dates and are expected to apply when the deferred income tax asset or liability is settled. Deferred income tax assets are recognized to the extent that it is probable these assets can be recovered.

Deferred income tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences and unused tax losses and tax credits can be utilized. The carrying value of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is not probable that sufficient taxable profits will be available to allow all or part of the deferred income tax asset to be recovered.

### **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 IAS 39 Financial Instruments – Recognition and Measurement.

### **Provisions**

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### **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 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.

**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended April 30, 2017 and April 30, 2016**

**Share-based compensation**

The Company has a share-based compensation plan, which is described further in Note 14.

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 are measured at the date of issuance using the Black-Scholes option pricing model. The carrying value of unexercised expired warrants is transferred to contributed surplus on the expiry date. 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.

**Contributed surplus**

Contributed surplus is classified as equity. The carrying value of contributed surplus is equal to the accumulated value of share-based compensation as described above plus the carrying value of unexercised warrants that have expired.

**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.

**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended April 30, 2017 and April 30, 2016**

#### **4. ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED**

The IASB has issued a number of amendments to standards that are not yet effective for the fiscal year ending April 30, 2017. Accordingly these standards have not been applied by the Company in the preparation of these financial statements.

The following is a description of the new standards:

The IASB published IFRS 9 Financial Instruments which replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 fundamentally rewrites the accounting rules for financial instruments. IFRS 9 introduces a new approach for financial asset classification, a more-forward looking expected loss model, and major new requirements on hedge accounting.

##### Classification, measurement and derecognition

IFRS 9 divides all financial assets into two classifications – those measured at amortised cost and those measured at fair value. Classification is made at the time the financial asset is initially recognized when the entity becomes a party to the contractual provisions of the instrument. The transition guidance is complex and mainly requires retrospective application. A new measurement category of 'fair value through other comprehensive income' is also included in IFRS 9. The Standard requires an entity to measure a financial asset at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Most of the requirements in IAS 39 for the classification and measurement of financial liabilities have been carried forward unchanged to IFRS 9. Where an entity chooses to measure its own debt at fair value, IFRS 9 now requires the amount of the change in fair value due to changes in the issuing of the entity's own credit risk to be presented in other comprehensive income. An exception to the new approach is made where the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch in profit or loss, in which case all gains or losses on that liability are to be presented in profit or loss. The requirements in IAS 39 related to derecognition of financial assets and financial liabilities have been incorporated unchanged into IFRS 9.

##### Impairment model

IFRS 9 contains a new credit loss impairment model which is based on a more forward-looking approach. The new model distinguishes between financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk and financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low. The model requires '12-month expected credit losses' to be recognized for a financial instrument in the first category and 'lifetime expected credit losses' to be recognized for a financial instrument in the second category. There is also a third step to the model in the sense that for assets which actually become credit-impaired after initial recognition, interest is calculated on the asset's amortised cost (i.e., the amount net of the loss allowance) as opposed to its gross carrying amount.

IFRS 9 will be effective for annual periods beginning on or after January 1, 2018. The Company does not anticipate early adoption of this standard and has not yet assessed its impact on the financial statements.

The IASB has published IFRS 15 Revenue from Contracts with Customers, the product of a major joint project between the IASB and the US Financial Accounting Standards Board. The previous requirements of IFRS and US GAAP were not harmonized and often resulted in different accounting treatments for economically similar transactions. In response, the Boards developed new, fully converged requirements for the recognition of revenue under both IFRS and US GAAP.



**NOTES TO FINANCIAL STATEMENTS**  
For the Years Ended April 30, 2017 and April 30, 2016

IFRS 15 replaces IAS 18 Revenue, IAS 11 Construction Contracts and some revenue-related Interpretations; establishes a new control-based revenue recognition model; changes the basis for deciding whether revenue is to be recognized over time or at a point in time; provides new and more detailed guidance on specific topics; and expands and improves disclosures about revenue.

IFRS 15 applies to contracts with customers to provide goods or services, including construction contracts and licensing of intellectual property. It will not apply to certain contracts within the scope of other IFRSs such as lease contracts, insurance contracts, financing arrangements, financial instruments, guarantees other than product warranties, and non-monetary exchanges between entities in the same line of business to facilitate sales to third-party customers.

IFRS 15 includes important new guidance on:

- contracts involving the delivery of two or more goods and services – when to account separately for the individual performance obligations in a multiple element arrangement, how to allocate the transaction price, and when to combine contracts,
- timing – when revenue is required to be recognized (over time or at a point in time),
- variable pricing and credit risk – how to treat arrangements with variable (e.g., performance-based) pricing, and how revenue can be constraint,
- time value of money – when to adjust a contract price for a financing component,
- specific issues, including: non-cash consideration and asset exchanges; contract costs; rights of return and other customer options; supplier repurchase options; warranties; principal versus agent; licencing; breakage; non-refundable upfront fees; and consignment and bill-and-hold arrangements.

IFRS 15 will be effective for annual periods beginning on or after January 1, 2018. The Company does not anticipate early adoption of this standard and has not yet assessed its impact on the financial statements.

The IASB released IFRS 16 Leases, completing its long-running project on lease accounting. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (the lessee and the lessor).

All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, from the perspective of the lessee, IFRS 16 eliminates the classification of leases as either operating leases or finance leases that is currently required by IAS 17 Leases and, instead, introduces a single lessee accounting model. When applying that model, a lessee is required to recognize:

- assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- depreciation of lease assets separately from interest on lease liabilities in the income statement.

From the perspective of the lessor, IFRS 16 substantially carries forward the accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and accounts for those two types of leases differently.

In addition, IFRS 16 also:

- changes the definition of a lease;
- sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods;
- provides exemptions for short-term leases and leases of low value assets;
- changes the accounting for sale and leaseback arrangements; and
- introduces new disclosure requirements.

IFRS 15 will be effective for annual periods beginning on or after January 1, 2019. The Company does not anticipate early



**NOTES TO FINANCIAL STATEMENTS**  
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adoption of this standard and has not yet assessed its impact on the financial statements.

## 5. INVENTORY

	2017	2016
	\$	\$
Raw materials and consumables	64,109	26,568
Work-in-process and finished goods	64,567	153,470
	<b>128,676</b>	<b>180,038</b>

During the year, the Company recorded a charge of \$nil (2016 - \$nil) to reduce the carrying values of inventory to net realizable values. Included in plant operating expenses is \$667,994 (2016 - \$420,688) of inventories recognized as an expense during the year.

## 6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	2017		
	Cost	Accumulated depreciation	Net carrying amount
	\$	\$	\$
Office equipment	260,462	252,144	8,318
Computer equipment	272,114	264,363	7,751
Machinery and equipment	2,929,927	2,713,958	215,969
Leasehold improvements	1,036,442	1,036,442	-
	<b>4,498,945</b>	<b>4,266,907</b>	<b>232,038</b>

  

	2016		
	Cost	Accumulated depreciation	Net carrying amount
	\$	\$	\$
Office equipment	260,462	250,065	10,397
Computer equipment	265,961	262,903	3,058
Machinery and equipment	2,925,932	2,652,616	273,316
Leasehold improvements	1,036,442	1,036,442	-
	<b>4,488,797</b>	<b>4,202,026</b>	<b>286,771</b>

**NOTES TO FINANCIAL STATEMENTS**  
For the Years Ended April 30, 2017 and April 30, 2016

The reconciliation of the carrying amounts of each class of property, plant and equipment at the beginning and the end of the current and previous years is as follows:

<b>2017</b>	<b>Carrying amount, beginning of year \$</b>	<b>Additions \$</b>	<b>Depreciation expense \$</b>	<b>Carrying amount, end of year \$</b>
Office equipment	10,397	-	(2,079)	8,318
Computer equipment	3,058	6,153	(1,460)	7,751
Machinery and equipment	273,316	3,995	(61,342)	215,969
Leasehold improvements	-	-	-	-
	<b>286,771</b>	<b>10,148</b>	<b>(64,881)</b>	<b>232,038</b>

  

<b>2016</b>	<b>Carrying amount, beginning of year \$</b>	<b>Additions \$</b>	<b>Depreciation expense \$</b>	<b>Carrying amount, end of year \$</b>
Office equipment	12,994	-	(2,597)	10,397
Computer equipment	4,368	-	(1,310)	3,058
Machinery and equipment	274,271	78,988	(79,943)	273,316
Leasehold improvements	-	-	-	-
	<b>291,633</b>	<b>78,988</b>	<b>(83,850)</b>	<b>286,771</b>

## 7. LICENSES AND TECHNOLOGY RIGHTS

Intangible assets consist of the following:

<b>2017</b>				
	<b>Cost \$</b>	<b>Accumulated amortization \$</b>	<b>Accumulated impairment \$</b>	<b>Net carrying amount \$</b>
Licences	408,128	408,128	-	-
Technology rights	18,250,050	15,871,869	2,378,181	-
	<b>18,658,178</b>	<b>16,279,997</b>	<b>2,378,181</b>	<b>-</b>

  

<b>2016</b>				
	<b>Cost \$</b>	<b>Accumulated amortization \$</b>	<b>Accumulated impairment \$</b>	<b>Net carrying amount \$</b>
Licences	408,128	408,128	-	-
Technology rights	18,250,050	15,871,869	2,378,181	-
	<b>18,658,178</b>	<b>16,279,997</b>	<b>2,378,181</b>	<b>-</b>

As the result of 2012 year end impairment testing as described in Note 3 Impairment of Non-Financial Assets, the carrying value of the technology rights was written down in its entirety.

**NOTES TO FINANCIAL STATEMENTS**  
For the Years Ended April 30, 2017 and April 30, 2016

**8. ACCRUED ROYALTIES**

	2017	2016
	\$	\$
Accrued royalties	535,782	544,344
Less: accrued royalties relating to fiscal 2018	187,986	183,675
	<b>347,796</b>	<b>360,669</b>

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 the future revenues for the next 15 years and applied a risk adjusted discount factor of 35% (2016 - 40%).

Royalties based on sales pertaining to the year ended April 30, 2017, in the amount of \$28,452 (2016 - \$42,967) 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 as follows:

- [a] An increase or decrease in the revenue estimate of 10%, with all other factors remaining constant, would increase or decrease the liability by \$53,578 or (\$53,578), respectively.
- [b] An increase in the discount factor by 5% would decrease the liability by (\$58,170) while a decrease in the discount factor by 5% would increase the liability by \$77,580, with all other factors remaining constant.
- [c] An increase or decrease in the time horizon of 5 years for revenue projections would not have a significant impact on the value of the liability, with all other factors remaining constant.

Interest and financing expense for the year includes cash-based royalties in the amount of \$137,563 (2016 - \$69,160) and a non-cash royalties expense recovery of \$8,562, relating to the change in the estimated fair value of the future royalty payable (2016 – expense of \$20,874).

Interest and financing expense for the year includes cash-based royalties of \$52,852 (2016 - \$26,572) paid or payable to a related party. Interest expense also includes a reduction in the accrual of royalties based on future sales in the amount of \$3,290 (2016 – increase in accrual of \$8,020) pertaining to a related party.

**NOTES TO FINANCIAL STATEMENTS**  
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## 9. TECHNOLOGY PARTNERSHIPS CANADA ["TPC"] CONTRIBUTIONS

The reconciliation of the carrying amounts of repayable government contributions at the beginning and the end of the current year and previous year is as follows:

	2017 \$	2016 \$
Repayable government contributions, beginning balance	76,855	73,944
Repayment of contributions-	(77,425)	-
Interest	570	2,911
Repayable government contributions, ending balance	-	76,855

The Company entered into an agreement with Technology Partnerships Canada ["TPC"], a program of Industry Canada, in March 1997 and as amended on March 23, 1998, March 31, 1999 and April 26, 2001 [the "TPC Agreement"] in which TPC made a repayable contribution [the "TPC Contributions"] to the Company equal to 35% of the eligible expenses incurred by the Company in connection with the work program set out in the TPC Agreement [the "TPC Program"], to a maximum of \$3,357,550, between October 1, 1996 and July 31, 2002.

As a condition of the TPC Agreement, the Company was required to make an annual royalty payment to TPC based on revenue from the sale of SAF of 3.45% until the sum of all royalties paid is equal to \$6,686,874 [the "TPC Royalty"]. As of April 30, 2012, the Company had incurred a total of \$459,049 in royalties.

In April of 2013, the Company signed a Debt Settlement Agreement with Industry Canada regarding the funds repayable under the TPC Agreement. At the time of the signing of the Debt Settlement Agreement, an aggregate of \$6,366,350 remained to be paid under the former TPC Agreement.

Under the Settlement Agreement, Industry Canada agreed to accept payments in the aggregate amount of \$175,000 in settlement of Cymat's entire obligation under the TPC program. The settlement was payable in 35 monthly installments of \$5,000 each, commencing on May 15, 2013. At the time of settlement, this obligation under the former TPC Agreement was reflected on the Company's books as a \$2,170,161 liability - an amount equal to the present value of the forecast royalty payment stream. The Debt Settlement Agreement resulted in the recording of a gain on settlement of debt in the amount of \$2,009,954 in the year ended April 30, 2013.

During the year ended April 30, 2016, the Company made no repayments of the TPC contributions. In June 2016, Industry Canada amended its repayment agreement with the Company to reflect monthly repayments of \$10,000 each commencing in June 2016, with the final payment of the remaining balance to be made in January 2017. The liability was paid in full in the year ended April 30, 2017.

During the year ended April 30, 2017, an interest expense in the amount of \$570 (2016 - \$2,911) was recorded on the liability under the Debt Settlement Agreement at an interest rate equal to the bank rate plus 3.75% which is the interest rate inherent in the Debt Settlement Agreement.

**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended April 30, 2017 and April 30, 2016**

**10. CONVERTIBLE DEBENTURES**

In December 2015, the Company issued Convertible Debentures (the “Debentures”) with an aggregate face value of \$463,000 via a non-brokered Private Placement Financing (the “Financing”). The Financing consisted of Debenture Units (the “Units”) priced at \$1,000 per Unit with each Unit consisting of Debentures in the principal amount of \$1,000 and 5,000 common share purchase warrants (the “Warrants”). The Debentures bear interest at a rate of 12% per annum compounding semi-annually, mature on June 30, 2017, and are convertible, at the option of the holder, into 5,000 common shares. Half of the interest is payable quarterly in arrears, and the remaining half of the interest is accrued and payable at the earliest of the conversion date and the maturity date. Each Warrant entitles the holder to purchase one common share at an exercise price of \$0.25 until June 30, 2017. Finders’ fees totaling \$12,500 were paid in connection with the Debenture issuance.

Debentures with the same terms as above were issued in July 2014, August 2014 and April 2015 with aggregate face values of \$1,220,000, \$395,000 and \$526,250, respectively. The holders of the promissory notes outstanding as at April 30, 2014 exchanged their Notes for 598 Units, representing Debentures with a face value of \$598,000. This exchange included 230 Units, representing Debentures with a face value of \$230,000, issued to a related party.

At the inception of the Debentures, the fair values of the loan and equity components were measured at their fair value using the residual method.

The fair values of the loan components for the December 2015 Debentures and the Debentures previously issued, in the amounts of \$380,949 and \$1,529,249, respectively, were determined by calculating the present value of the cash payments associated with the Debenture using a discount factor of 25% which is equal to the Company’s estimated risk-adjusted rate of borrowing. The fair values of the loan components are being accreted to their face value through the recording of interest expense as calculated using the effective rate method.

A summary of the carrying amount of the debt component of the Debentures, and the underlying face value, is as follows:

	2017 Book Value \$	2017 Face Value \$	2016 Book value \$	2016 Face Value \$
Convertible debentures, beginning balance	2,459,360	2,574,250	1,712,993	2,121,250
Convertible debt issued December 2015	-	-	380,949	463,000
Interest accrued	341,148	-	292,897	-
Interest paid	(189,851)	-	(138,709)	-
Interest accretion (non-cash)	313,142	-	219,682	-
Debentures converted	(48,033)	(50,000)	(8,452)	(10,000)
Convertible debentures, ending balance	2,875,766	2,524,250	2,459,360	2,574,250
Less: current portion	(2,875,766)	(2,524,250)	(27,491)	-
	-	-	2,431,869	2,574,250

In March 2017, Debentures with a face value of \$50,000 were converted by the holder into 250,000 common shares. In March 2016, Debentures with a face value of \$10,000 were converted by the holder into 50,000 common shares.

Interest and financing expense for the year ended April 30, 2017, includes Debenture interest in the amount of \$654,290 (2016 - \$510,904), including \$59,631 (2016 - \$51,527) pertaining to a related party.

**NOTES TO FINANCIAL STATEMENTS**  
For the Years Ended April 30, 2017 and April 30, 2016

**11. SHARE CAPITAL**

- [a] The Company is authorised to issue an unlimited number of common shares.
- [b] In March 2016, the Company issued 50,000 common shares as the result of the conversion of convertible debentures with a face value of \$10,000.
- [c] In April 2016, the Company issued 17,306 common shares as the result of the exercise of employee stock options.
- [d] In May 2016, the Company issued 27,477 common shares as the result of the exercise of employee stock options.
- [e] In October 2016, the Company issued equity units for gross proceeds of \$500,000 via a private placement financing. Each equity unit consisted of one common share and one half of a common share purchase warrant, resulting in the issuance of 2,500,000 common shares. The net proceeds \$496,750 were allocated to common shares based on the closing price of the common shares on the TSX Venture Exchange on the day immediately preceding the closing date. As a result \$347,725 was allocated to the common shares, with the residual \$149,025 allocated to the warrants.
- [f] In November 2016, the Company issued 28,333 common shares as the result of the exercise of employee stock options.
- [g] In the months of March and April 2017, the Company issued 1,683,750 common shares as the result of the exercise of warrants.
- [h] In March 2017, the Company issued 250,000 common shares as the result of the conversion of convertible debentures with a face value of \$50,000.
- [i] To date, the Company has not paid dividends on its common shares.

**12. EQUITY PORTION OF CONVERTIBLE DEBENTURES**

The Debentures described in Note 10 above, include a conversion feature whereby the Debentures are convertible into common shares at a conversion price of \$0.20 per share. This conversion feature combined with the common share purchase warrants represents the equity portion of the Financing. At the inception of the Debentures the fair value of the equity portion of the Financing was calculated using the residual valuation method. This residual amount was allocated between the conversion feature and warrants based on their relative fair values calculated using the Black-Scholes option pricing model. As a result, during the year ended April 30, 2016, a value of \$41,026 was allocated to the conversion feature and a value of \$41,025 was allocated to the warrants.

In March 2017, the conversion feature for Debentures with a face value of \$50,000 was exercised. As a result, an amount of \$5,966 was allocated from the recorded value of the conversion feature to the recorded value of share capital. In March 2016, the conversion feature for Debentures with a face value of \$10,000 was exercised. As a result, an amount of \$886 was allocated from the recorded value of the conversion feature to the recorded value of share capital.

**13. WARRANTS**

	Number	2017 \$	Number	2016 \$
Warrants, beginning balance	13,021,250	346,770	13,784,110	843,895
Issued during the period	1,250,000	149,025	2,315,000	41,025
Exercised during the period	(1,683,750)	(43,031)	-	-
Expired during the period	-	-	(3,077,860)	(538,150)
Warrants, ending balance	12,587,500	452,764	13,021,250	346,770

**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended April 30, 2017 and April 30, 2016**

- [a] In December 2015, the Company issued an aggregate of 2,315,000 common share purchase warrants in conjunction with a convertible debt financing. Each warrant entitles the holder to purchase one common share at an exercise price of \$0.25 until June 30, 2017.
- [b] In October 2016, the Company issued equity units for gross proceeds of \$500,000 via a private placement financing. Each equity unit consisted of one common share and one half of a common share purchase warrant, resulting in the issuance of 1,250,000 warrants. Each full warrant has an exercise price of \$0.25 and an expiry date of October 6, 2018. The net proceeds \$496,750 were allocated to common shares based on the closing price of the common shares on the TSX Venture Exchange on the day immediately preceding the closing date. As a result \$347,725 was allocated to the common shares, with the residual \$149,025 allocated to the warrants.
- [c] In the months of March and April 2017, 1,683,750 warrants with an exercise price of \$0.25 each, were exercised resulting in aggregate gross proceeds of \$420,938.
- [d] As part of a series of private equity placements occurring in calendar 2012, the Company issued an aggregate of 3,077,860 common share purchase warrants. Each warrant entitles the holder to purchase one common share at an exercise price of \$1.00 until May 15, 2015. These warrants expired unexercised in May 2015.

#### **14. 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 2,910,392.

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] 447,859 options with an exercise price of \$0.125 granted on June 19, 2015 to directors, officers and employees with 34% vesting upon grant, 33% vesting on June 19, 2016, and 33% vesting on June 19, 2017.
- [b] 970,000 options with an exercise price of \$0.20 granted on June 7, 2016 to directors, officers and employees with 34% vesting upon grant, 33% vesting on June 7, 2017, and 33% vesting on June 7, 2018.
- [c] 17,500 options with an exercise price of \$0.34 granted on January 11, 2017 to a consultant vesting immediately.

The details of the changes in the number of stock options outstanding as at April 30, 2017 and 2016 are as follows:

	2017		2016	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Outstanding, beginning of year	1,810,338	0.30	1,853,620	0.53
Granted	987,500	0.20	447,859	0.125
Exercised	(55,810)	0.16	(17,306)	0.145
Expired/forfeited	(345,120)	0.82	(473,835)	1.06
Outstanding, end of year	2,396,908	0.19	1,810,338	0.30
Exercisable, end of year	1,600,962	0.19	1,195,107	0.37

**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended April 30, 2017 and April 30, 2016**

The following table summarizes information about stock options outstanding and exercisable as at April 30, 2017:

Exercise Prices \$	Options Outstanding #	Options Exercisable #	Remaining Contractual Life Years
0.34	17,500	17,500	4.7
0.20	958,333	311,670	4.1
0.125	409,525	260,242	3.1
0.13	100,000	100,000	3.0
0.185	643,550	643,550	2.5
0.25	268,000	268,000	0.6
	<u>2,396,908</u>	<u>1,600,962</u>	

The fair values of options granted in the years ended April 30, 2017 and April 30, 2016, estimated at the date of grant using the Black-Scholes option pricing model, used the following assumptions:

	June 2016	June 2015
Weighted average assumptions:		
Risk free interest rate	1.0%	1.0%
Dividend yield	0%	0%
Volatility	503%	498%
Expected option life	5 years	5 years
Resulting fair value:	\$0.20	\$0.125

During the year ended April 30, 2017, the Company recognized a share-based compensation expense in the amount of \$180,201 (2016 - \$51,897). Share-based compensation expense is included in selling, general and administrative expenses.

Options relating to consulting services were issued on January 11, 2017. A related expense in the amount of \$5,121 (2016 - \$12,735) was recorded at the estimated value of the services received.



**NOTES TO FINANCIAL STATEMENTS**  
For the Years Ended April 30, 2017 and April 30, 2016

**15. EXPENSES BY NATURE**

Expenses incurred by nature are as follows:

	2017	2016
	\$	\$
Raw materials, consumables and maintenance	679,807	397,961
Changes in inventories – raw materials	(37,541)	15,474
Changes in inventories – finished goods	100,532	15,567
Employee salaries and benefits	1,126,849	909,607
Shipping and freight	172,906	95,212
Facilities	328,220	310,070
Depreciation and amortization	64,881	83,850
Insurance	63,719	62,703
Professional and consulting fees	210,349	187,178
Shareholder and corporate communications	129,051	105,825
Telecommunication and information technology	32,376	31,695
Marketing, sales and travel	95,125	28,524
Other	26,271	18,384
	<b>2,992,545</b>	<b>2,262,050</b>

**16. EMPLOYEE COMPENSATION AND BENEFITS**

Employee benefits include the following expenses:

	2017	2016
	\$	\$
Salary and wages	808,210	723,978
Stock-based compensation	180,201	51,898
Medical, dental and insurance	82,175	84,409
Other	56,263	49,322
	<b>1,126,849</b>	<b>909,607</b>

**17. INCOME TAXES**

The provision for income taxes is summarized as follows:

	2017	2016
	\$	\$
Income tax expense (recovery) at statutory rate (25.0%)	(260,980)	(378,344)
Stock-based compensation not deductible for tax	46,331	16,158
Interest expense not deductible for tax	76,145	60,139
Other	15,527	18,316
Benefit of tax losses not recognized	122,977	283,731
	-	-

**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended April 30, 2017 and April 30, 2016**

The tax benefit of the following unused tax losses and deductible temporary differences has not been recognized in the financial statements due to the unpredictability of future earnings.

	2017 \$	2016 \$
Non-capital losses carried forward	4,381,128	4,258,148
Scientific research and experimental development expenditures	60,268	60,268
Investment tax credits	70,720	70,720
Share issue costs	650	2,050
Property, plant and equipment	146,347	130,127
Licenses and technology rights	2,750,000	2,750,000
	<b>7,409,113</b>	<b>7,271,313</b>

The Company has available scientific research and experimental development expenditures for income tax purposes, which may be carried forward indefinitely to reduce future years' taxable income. The total of such tax credits accumulated to April 30, 2017 is approximately \$241,000 (2016 - \$241,000).

At April 30, 2017, the Company has tax losses for Canadian tax purposes of approximately \$17,525,000 (2016 - \$17,033,000). The Company also has unclaimed Canadian scientific research investment tax credits of approximately \$71,000 (2016 - \$71,000) which can be used to offset future years' Canadian federal taxes payable. Expiry dates for tax losses and tax credits are as follows:

	Tax Losses \$	ITCs \$
Fiscal 2027	1,700,000	34,000
Fiscal 2028	1,666,000	14,000
Fiscal 2029	2,440,000	14,000
Fiscal 2030	3,165,000	9,000
Fiscal 2031	1,984,000	-
Fiscal 2032	1,127,000	-
Fiscal 2033	1,621,000	-
Fiscal 2034	1,315,000	-
Fiscal 2035	880,000	-
Fiscal 2036	1,135,000	-
Fiscal 2037	492,000	-

## 18. RELATED PARTY TRANSACTIONS

Related party transactions regarding the accrued royalty are reported in Note 8 and regarding the convertible debentures are reported in Note 10.

### Key Management Compensation

Key management includes the Company's board of directors and senior executives.

	2017 \$	2016 \$
Salary, fees and short-term benefits	558,724	549,537
Stock-based compensation	167,361	47,901
	<b>726,085</b>	<b>597,438</b>

**NOTES TO FINANCIAL STATEMENTS**  
For the Years Ended April 30, 2017 and April 30, 2016

**19. COMMITMENTS AND CONTINGENCIES**

The Company leases its manufacturing and office premises. The lease is in effect until July 31, 2018. As at April 30, 2017, the future minimum annual lease payments (excluding taxes and operating expenses) under operating leases in aggregate are as follows:

	\$
2018	150,708
2019	37,677

**20. FINANCIAL INSTRUMENTS**

The Company's financial instruments are classified into one of the following categories: loans and receivables, 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:

	2017 \$	2016 \$
Loans and receivables (1)	593,228	352,763
Financial liabilities at amortized cost (2)	3,580,270	3,297,818
Financial liabilities at fair value through profit and loss (3)	535,782	544,344

(1) Includes cash and cash equivalents, restricted cash, and trade and other receivables. Restricted cash arises as a result of \$14,000 held by the Company's electricity provider.

(2) Includes trade and other payables, convertible debentures and repayable government contributions.

(3) Includes accrued royalty

The reported value is a reasonable approximation of fair value for financial instruments recorded as loans and receivables 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 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 April 30, 2017, the Company was holding cash and cash equivalents of \$458,388 (2016 - \$171,689) and trade and other receivables of \$120,840 (2016 - \$167,074).

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

**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended April 30, 2017 and April 30, 2016**

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

Fiscal Years	2018 \$	2019 \$	2020 \$	2021 \$	2022 \$
Trade and other payables	594,794	-	-	-	-
Accrued royalties	187,985	167,584	167,584	167,584	167,584
Convertible debentures	2,930,890	-	-	-	-

*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 year ended April 30, 2017, the Company had a net operating foreign exchange loss of \$19,350 (2016 – gain of \$10,432), which is included in the statement of operations, comprehensive income (loss) and deficit and is classified separately.

Increases in the value of the Canadian dollar can reduce revenue, with a partially off-setting reduction in the cost of material inputs. Declines in the comparative value of the Canadian dollar can result in increased revenue with a partially off-setting increase in the cost of material inputs. A ten percent (10%) change in the Canadian dollar compared to key foreign currencies would, everything else being equal, have had the following effect on the Company's reported net loss for the year ended April 30, 2017:

	Year ended April 30, 2017 average exchange rate (Value of \$1 CAD)	Favourable (Unfavourable) Change in Net Loss Relative Value of \$1 CAD	
		Increase By 10%	Decrease by 10%
United States dollar	0.76	(\$82,124)	\$100,374
European Euro	0.70	(\$63,614)	\$77,750

The table below presents the percentages of the Company's trade and other receivables and trade and other payables that are denominated in US dollars and European Euros:

	As at April 30, 2017		As at April 30, 2016	
	US\$ %	Euro€ %	US\$ %	Euro€ %
Trade and other receivables	19	7	9	15
Trade and other payables	22	2	22	2

**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended April 30, 2017 and April 30, 2016**

During the years ended April 30, 2017 and 2016, the following percentages of the revenue and expenses were earned or incurred in US dollars and European Euros:

	Year ended April 30, 2017		Year ended April 30, 2016	
	US\$ %	Euro€ %	US\$ %	Euro€ %
Revenue	48	25	23	37
Expenses	11	-	8	-

As at April 30, 2017, the Company's financial instruments exposed to foreign currency risk consist of 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.

*Interest rate risk*

Interest rate risk arises from fluctuations in the market interest rates.

During the year ended April 30, 2017, the Company incurred interest expenses from primarily from two sources: 1) convertible debentures (See Note 10) and 2) the liability associated with the TPC program (See Note 9). Changes in underlying market interest rates would impact the fair value of the convertible debentures through a related change in the discount factor, as discussed in Note 10. During the year ended April 30, 2017, the TPC liability was settled.

*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. For the year ended April 30, 2017, the Company's two largest customers accounted for 19% and 14%, respectively, of total annual sales. For the year ended April 30, 2016, the Company's two largest customers accounted for 25% and 21%, respectively, of total annual sales. The Company's maximum exposure to credit risk is \$90,658 (2016 - \$99,210). Accounts receivable that are outstanding greater than 3 months but for which no allowance for doubtful accounts has been taken total \$62,285 (2016 - \$62,285).

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 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 year ended April 30, 2017 (2016 - \$Nil).

As at April 30, 2017, the largest amount due from one customer amounted to 33% (2016 - 25%) of the Company's trade accounts receivable which total \$76,659 (2016 - \$85,208).

**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended April 30, 2017 and April 30, 2016**

*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 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 8.

There were no significant transfers between levels 1, 2 or 3 during fiscal 2017 or 2016.

## **21. SUBSEQUENT EVENTS**

In the months of May and June of 2017, 5,439,035 warrants with an exercise price of \$0.25 each were exercised producing gross proceeds of \$1,359,759. On June 30, 2017, the remaining 5,960,965 warrants that had been issued in conjunction with the convertible debt expired unexercised.

In June 2017, all of the convertible debentures that were outstanding on April 30, 2017, were converted into common shares. As a result of the conversions, the Company issued 12,671,250 common shares in June 2017.

In July 2017, the Company granted 2,785,000 stock options to certain of its directors, officers and employees, with an exercise price of \$0.205 per share. The options vest in three tranches over a two-year period and expire on July 13, 2022. The vesting of 878,331 of these options is dependent upon the achievement of certain performance objectives for fiscal 2018 and fiscal 2019. Also in July 2017, the Company granted 100,000 stock options to a consultant, with an exercise price of \$0.21, a July 13, 2022 expiry date and immediate vesting.