

UNAUDITED INTERIM FINANCIAL STATEMENTS

CYMAT TECHNOLOGIES LTD.

January 31, 2019 and January 31, 2018

CYMAT TECHNOLOGIES LTD.

UNAUDITED FINANCIAL STATEMENTS

Three and Nine Months ended January 31, 2019 and January 31, 2018

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INTERIM STATEMENTS OF FINANCIAL POSITION**(Unaudited)**

As at:	January 31, 2019 \$	April 30, 2018 \$
ASSETS		
Current assets		
Cash and cash equivalents	125,219	524,332
Restricted cash	23,395	-
Trade and other receivables [Note 5]	152,086	465,200
Inventory [Note 6]	137,192	392,537
Prepaid expenses	1,000	35,606
Total current assets	438,892	1,417,675
Other assets	27,930	27,930
Property, plant and equipment, net	234,710	244,975
Licenses and technology rights	-	-
Total assets	701,532	1,690,580
LIABILITIES		
Current liabilities		
Trade and other payables	572,976	697,261
Deferred revenue	118,437	260,039
Current portion of deferred rent liability	-	2,200
Current portion of accrued royalties [Note 8]	145,849	130,535
Total current liabilities	837,262	1,090,035
Non-current liabilities		
Accrued royalties [Note 8]	489,875	505,189
Total liabilities	1,327,137	1,595,224
EQUITY (DEFICIENCY)		
Share capital [Note 9]	71,314,148	71,064,924
Contributed surplus	7,590,682	7,410,749
Warrants [Note 10]	-	141,574
Deficit	(79,530,435)	(78,521,891)
Total equity (deficiency)	(625,605)	95,356
Total liabilities and equity (deficiency)	701,532	1,690,580

See accompanying Notes

On behalf of the Board:

Michael Lük
Director

Jon Gill
Director

INTERIM STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

(Unaudited)

	Three Months Ended		Nine Months Ended	
	January 31	January 31	January 31	January 31
	2019	2018	2019	2018
	\$	\$	\$	\$
Revenues	604,264	776,509	2,025,850	1,724,856
Plant operating expenses	533,318	375,957	1,611,239	1,050,565
Research and material testing expenses	41,648	16,954	160,277	28,834
Selling, general and administrative expenses	382,395	442,320	1,150,016	1,391,174
	957,361	835,231	2,921,532	2,470,573
Loss from operations	(353,097)	(58,722)	(895,682)	(745,717)
Foreign exchange (loss) gain	613	(14,836)	(12,596)	(6,433)
Interest income	-	-	75	-
Interest and financing expense [Notes 7 and 8]	(30,390)	(41,756)	(100,341)	(199,602)
	(29,777)	(56,592)	(112,862)	(206,035)
Net loss and comprehensive loss for the period	(382,874)	(115,314)	(1,008,544)	(951,752)
Deficit, beginning of the period	(79,147,561)	(78,242,151)	(78,521,891)	(77,405,713)
Net loss	(382,874)	(115,314)	(1,008,544)	(951,752)
Deficit, end of the period	(79,530,435)	(78,357,465)	(79,530,435)	(78,357,465)
Basic and diluted net loss per share	(0.01)	(0.00)	(0.03)	(0.03)
Weighted average number of shares:				
Basic and diluted	37,799,331	37,124,331	37,406,940	33,495,898

See accompanying Notes

INTERIM STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)

(Unaudited)

	Common Shares		Contributed	Equity Portion of Convertible			Total
	#	\$	Surplus	Debentures	Warrants	Deficit	Shareholders'
			\$	\$	\$	\$	Equity (Deficiency)
							\$
May 1, 2017	19,014,046	66,679,985	6,759,770	338,912	452,764	(77,405,713)	(3,174,282)
Stock-based compensation	-	-	405,480	-	-	-	405,480
Conversion of convertible debentures	12,671,250	2,871,294	-	(338,912)	-	-	2,532,382
Exercise of warrants	5,439,035	1,513,645	-	-	(153,886)	-	1,359,759
Expiration of warrants	-	-	157,304	-	(157,304)	-	-
Net loss for the period	-	-	-	-	-	(951,752)	(951,752)
January 31, 2018	37,124,331	71,064,924	7,322,554	-	141,574	(78,357,465)	171,587
Stock-based compensation and consulting fees	-	-	88,195	-	-	-	88,195
Net loss for the period	-	-	-	-	-	(164,426)	(164,426)
April 30, 2018	37,124,331	71,064,924	7,410,749	-	141,574	(78,521,891)	95,356
Stock-based compensation	-	-	118,833	-	-	-	118,833
Exercise of warrants	675,000	249,224	-	-	(80,474)	-	168,750
Expiration of warrants	-	-	61,100	-	(61,100)	-	-
Net loss for the period	-	-	-	-	-	(1,008,544)	(1,008,544)
January 31, 2019	37,799,331	71,314,148	7,590,682	-	-	(79,530,435)	(625,605)

See accompanying Notes

INTERIM STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended		Nine Months Ended	
	January 31	January 31	January 31	January 31
	2019	2018	2019	2018
	\$	\$	\$	\$
Cash and cash equivalents provided by (used in):				
OPERATING ACTIVITIES				
Net loss for the period	(382,874)	(115,314)	(1,008,544)	(951,752)
Add items not involving cash				
Depreciation and amortization	15,979	16,624	45,499	44,425
Interest accrued on convertible debentures [Note 7]	-	-	-	55,633
Stock-based compensation expense [Note 11]	23,947	79,536	118,833	384,980
Stock-based consulting fees [Note 11]	-	-	-	20,500
Non-cash interest and financing expense [Note 7]	-	-	-	57,996
	(342,948)	(19,154)	(844,212)	(388,218)
Changes in non-cash working capital				
balances related to operations:				
Restricted cash	(23,395)	-	(23,395)	14,000
Trade and other receivables	1,822	(13,954)	313,114	(73,518)
Inventory	75,176	(290,640)	255,345	(322,133)
Prepaid expenses	18,566	(67,554)	34,606	(55,724)
Trade and other payables	(5,526)	9,747	(124,285)	(223,960)
Deferred revenue	118,437	106,081	(141,602)	62,851
Deferred rent liability	-	(2,200)	(2,200)	(6,601)
Cash used in operating activities	(157,868)	(277,674)	(532,629)	(993,303)
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(3,588)	(4,661)	(35,234)	(71,095)
Cash used in investing activities	(3,588)	(4,661)	(35,234)	(71,095)
FINANCING ACTIVITIES				
Proceeds from exercise of warrants	-	-	168,750	1,359,759
Interest paid on convertible debt [Note 7]	-	-	-	(457,013)
Cash provided by financing activities	-	-	168,750	902,746
Net increase (decrease) in cash and cash equivalents during the period	(161,456)	(282,335)	(399,113)	(161,652)
Cash and cash equivalents, beginning of period	286,675	579,071	524,332	458,388
Cash and cash equivalents, end of period	125,219	296,736	125,219	296,736
Supplemental cash flow information				
Interest and financing expenses paid	-	7,002	64,442	518,458

See accompanying Notes

NOTES TO FINANCIAL STATEMENTS
For the Three and Nine Months Ended January 31, 2019 and January 31, 2018
(Unaudited)

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 January 31, 2019, the anticipated level of cash flows from operating activities for the next twelve months is not assured to be sufficient to sustain operations. The ability of the Company to continue as a going concern is dependent upon achieving future profitable operations and may also be dependent upon raising additional financing through borrowings or equity issuance. The outcome of these matters is dependent on a number of items outside the Company's control. As a result, there are material uncertainties that may cast significant doubt as to whether the Company will have the ability to continue as a going concern. These 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 unaudited interim financial statements for the three and nine months ended January 31, 2019 have been prepared in accordance with IAS 34, Interim Financial Reporting. The disclosures contained in these unaudited interim financial statements do not include all of the requirements of International Financial Reporting Standards ["IFRS"] for annual financial statements. The accounting policies used in the preparation of these unaudited interim financial statements are consistent with those used in the audited annual financial statements for the year ended April 30, 2018, which were prepared in accordance with IFRS as issued by the International Accounting Standards Board ["IASB"] and interpretations of the International Financial Reporting Interpretations Committee ["IFRIC"]. These unaudited interim financial statements should be read in conjunction with the annual financial statements for the year ended April 30, 2018.

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 January 31, 2019. The Company's Board of Directors approved these financial statements on March 27, 2019.

NOTES TO FINANCIAL STATEMENTS
For the Three and Nine Months Ended January 31, 2019 and January 31, 2018
(Unaudited)

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 7 and 10),
- 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 11).
- 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 at the point in time when control of the product is transferred to the customer. Based on the terms of the specific transaction, control typically transfers at a point along a continuum that is as early as the products' departure from the Company's warehouse to as late as the passing of inspection following the products' arrival at a designated shipment location. Amounts received in advance of recognized revenues are recorded as deferred revenue.

Cash and cash equivalents

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

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(Unaudited)

Financial instruments

The Company adopted all of the requirements of IFRS 9 Financial Instruments (“IFRS 9”) as of May 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking “expected loss” impairment model. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, such that the Company’s accounting policy with respect to financial liabilities is unchanged. Additionally, as a result of the adoption of IFRS 9, the Company has not materially changed its accounting policy for financial assets. The adoption of IFRS 9 had no impact on the carrying values of any financial assets or financial liabilities on the transition date.

A summary of the Company’s accounting policy for financial instruments under IFRS 9 is described below.

(i) Classification.

A financial asset or liability is classified in one of the following categories: at fair value through profit and loss (“FVTPL”), at fair value through other comprehensive income (loss) (“FVTOCI”), or at amortized cost. The Company determines the classification of a financial instrument at initial recognition. The classification of the Company’s financial assets and liabilities is disclosed in Note 13.

(ii) Measurement.

Financial assets and liabilities classified at amortized cost are initially recognized at fair value, plus or minus transaction costs, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities classified at FVTPL are initially recorded at fair value and related transaction costs are expensed. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of operations and comprehensive loss in the period in which they arise. The Company has no financial assets in this category. The accrued royalty is held at FVTPL. 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.

The Company has no financial instruments classified at FVTOCI.

(iii) Derecognition.

Financial assets are derecognized when the contractual rights to cash flows from the financial assets expire, or when the Company transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are recorded in the statements of operations and comprehensive loss.

Financial liabilities are derecognized only when its obligations under the financial liability are discharged, cancelled or expired. Typically, the difference between the carrying value of the derecognized financial liability and the consideration paid or payable is recorded in the statements of operations and comprehensive loss.

Inventory

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

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(Unaudited)

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.

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.

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Share-based compensation

The Company has a share-based compensation plan, which is described further in Note 11.

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.

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4. ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

The IASB has issued the below-described amendment to IFRS that is not yet effective for the period ending January 31, 2019. Accordingly this standard has not been applied by the Company in the preparation of these financial statements.

IFRS 16 Leases

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.

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 16 will be effective for annual periods beginning on or after January 1, 2019. For Cymat, the first effective fiscal year will be the one commencing May 1, 2019. The Company will not be implementing early adoption of this standard. The Company has completed an initial review to identify all leases that will require recognition of a right-of-use asset and lease liability. The Company is currently quantifying these impacts and assessing its transition and implementation options.

5. TRADE AND OTHER RECEIVABLES

	January 31, 2019	April 30, 2018
	\$	\$
Trade accounts receivable	38,044	366,346
Other receivables	114,042	98,854
	153,908	465,200

6. INVENTORY

	January 31, 2019	April 30, 2018
	\$	\$
Raw materials and consumables	64,883	132,753
Work-in-process and finished goods	53,976	251,043
Research and development materials	18,333	8,741
	137,192	392,537

During the nine months ended January 31, 2019, the Company recorded a charge of \$nil (fiscal 2018 - \$nil) to reduce the carrying values of inventory to net realizable values.

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7. CONVERTIBLE DEBENTURES

In July 2014, August 2014, April 2015 and December 2015, the Company issued Convertible Debentures (the “Debentures”) with an aggregate face value of \$2,604,250 via non-brokered Private Placement Financings (the “Financings”). The Financings 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 bore interest at a rate of 12% per annum compounding semi-annually, maturing on June 30, 2017, and were convertible, at the option of the holder, into 5,000 common shares. Half of the interest was payable quarterly in arrears, and the remaining half of the interest was accrued and payable at the earliest of the conversion date and the maturity date. Each Warrant entitled the holder to purchase one common share at an exercise price of \$0.25 until June 30, 2017.

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 were accreted to their face value through the recording of interest expense as calculated using the effective rate method.

In March 2016, Debentures with a face value of \$10,000 were converted by the holder into 50,000 common shares. In March 2017, Debentures with a face value of \$50,000 were converted by the holder into 250,000 common shares. In June 2017, the remaining outstanding Debentures were converted by their holders into 12,671,250 common shares.

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

	January 31, 2019 Book Value	January 31, 2019 Face Value	April 30, 2018 Book value	April 30, 2018 Face Value
	\$	\$	\$	\$
Convertible debentures, beginning balance	-	-	2,875,766	2,524,250
Interest accrued	-	-	55,633	-
Interest paid	-	-	(457,013)	-
Interest accretion (non-cash)	-	-	57,996	-
Debentures converted	-	-	(2,532,382)	(2,524,250)
Convertible debentures, ending balance	-	-	-	-
Less: current portion	-	-	-	-
	-	-	-	-

Interest and financing expense for the nine months ended January 31, 2019, includes Debenture interest in the amount of \$Nil (2018 - \$113,629), including \$Nil (2018 - \$10,852) pertaining to a related party.

8. ACCRUED ROYALTIES

	January 31, 2019 \$	April 30, 2018 \$
Accrued royalties	635,724	635,724
Less: accrued royalties relating to fiscal 2019	145,849	130,535
	489,875	505,189

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)

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interest and financing expense. In calculating the fair value of these accrued royalties, the Company estimated future revenues and applied a risk adjusted discount factor of 30%.

The fair value of the accrued royalty is inherently subject to estimation uncertainty given the unpredictability of the timing and amount of revenues.

Royalties based on sales pertaining to periods ended January 31, 2019, in the amount of \$80,006 (April 30, 2018 - \$44,107) are included in trade and other payables.

Interest and financing expense for the nine months ended January 31, 2019 includes cash-based royalties in the amount of \$100,341 (January 31, 2018 - \$113,629), including an amount of \$38,551 (January, 31, 2018 - \$33,031) payable to a related party.

9. SHARE CAPITAL

- [a] The Company is authorised to issue an unlimited number of common shares.
- [b] In the months of May and June 2017, the Company issued 5,439,035 common shares as the result of the exercise of warrants.
- [c] In June 2017, the Company issued 12,671,250 common shares as the result of the conversion of convertible debentures with a face value of \$2,524,250.
- [d] In October 2018, the Company issued 675,000 common shares as the result of the exercise of warrants.
- [e] To date, the Company has not paid dividends on its common shares.

10. WARRANTS

	January 31, 2019		April 30, 2018	
	Number	\$	Number	\$
Warrants, beginning balance	1,187,500	141,574	12,587,500	452,764
Exercised during the period	(675,000)	(80,474)	(5,439,035)	(153,886)
Expired during the period	(512,500)	(61,100)	(5,960,965)	(157,304)
Warrants, ending balance	-	-	1,187,500	141,574

- [a] 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.
- [b] In the months of May and June 2017, 5,439,035 warrants with an exercise price of \$0.25 each, were exercised resulting in aggregate gross proceeds of \$1,359,759.
- [c] On June 30, 2017, 5,960,965 warrants with an exercise price of \$0.25 each expired unexercised.
- [d] In October 2018, 675,000 warrants with an exercise price of \$0.25 each, were exercised resulting in aggregate gross proceeds of \$168,750. Also in October, the remaining 512,500 warrants expired unexercised.

NOTES TO FINANCIAL STATEMENTS
For the Three and Nine Months Ended January 31, 2019 and January 31, 2018
(Unaudited)

11. SHARE-BASED COMPENSATION

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

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

- [a] 100,000 options with an exercise price of \$0.21 granted on July 13, 2017 to a consultant vesting immediately.
- [b] 2,785,000 options with an exercise price of \$0.205 granted on July 13, 2017 to directors, officers and employees with 34% vesting upon grant, 33% vesting on July 13, 2018, and 33% vesting on July 13, 2019. Vesting for 878,331 of these options is further dependent upon the attainment of certain performance criteria.
- [c] 25,000 options with an exercise price of \$0.28 granted on June 11, 2018 to an employee with one third vesting upon grant, one third vesting on June 11, 2019 and one third vesting on June 11, 2020.

During the nine months ended January 31, 2019, the Company recognized a share-based compensation expense in the amount of \$118,833 (January 31, 2018 - \$384,980). Share-based compensation expense is included in selling, general and administrative expenses.

Options relating to consulting services were issued on July 13, 2017. A related expense in the amount of \$20,500 was recorded at the estimated value of the services received.

12. COMMITMENTS

The Company leases its manufacturing and office premises. The current lease is in effect until July 31, 2023. As at January 31, 2019, the future minimum annual lease payments by fiscal year (excluding taxes and operating expenses) under operating leases in aggregate are as follows:

	\$
2019	40,953
2020	168,727
2021	175,279
2022	181,832
2023	183,470
2024	45,868

NOTES TO FINANCIAL STATEMENTS
For the Three and Nine Months Ended January 31, 2019 and January 31, 2018
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13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments are classified into one of the following categories: financial assets at amortized cost; financial liabilities at amortized cost; financial assets at fair value through profit or loss; financial liabilities at fair value through profit or loss; financial assets at fair value through other comprehensive income and financial liabilities at fair value through other comprehensive income. The following table summarizes the classification of the Company's financial instruments.

	January 31, 2019 \$	April 30, 2018 \$
Cash and cash equivalents	125,219	524,332
Restricted cash	23,395	-
Trade and other receivables	152,086	465,200
Financial assets at amortized cost	300,700	989,532
Trade and other payables	572,976	697,261
Financial liabilities at amortized cost	572,976	697,261
Current portion of accrued royalties	145,849	130,535
Non-current portion of accrued royalties	489,875	505,189
Financial liabilities at fair value through profit or loss	635,724	635,724

The carrying value of cash and cash equivalents, trade and other receivables and trade and other payables approximates their fair value given their short-term nature. 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.

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 7.

There were no significant transfers between levels 1, 2 or 3 during the current year or fiscal 2018.

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

NOTES TO FINANCIAL STATEMENTS
For the Three and Nine Months Ended January 31, 2019 and January 31, 2018
(Unaudited)

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 January 31, 2019, the Company was holding cash and cash equivalents of \$125,219 (April 30, 2018 - \$524,332) and trade and other receivables of \$152,086 (April 30, 2018 - \$465,200).

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

Foreign currency risk

The Company is primarily exposed to the fluctuation of the Euro and 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 nine months ended January 31, 2019, the Company had a net operating foreign exchange loss of \$12,596 (2018 – loss of \$6,433), 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.

Credit risk

Credit risk arises from the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge the obligation. The Company is exposed to credit risk from customers. The maximum exposure to credit risk is equal to the carrying value of the receivable.

Management seeks to minimize credit risk through the establishment of payment terms requiring the receipt of full order payment prior to shipment of goods. In some cases credit terms, generally between 30 and 90 days after shipment, are granted to customers. When deemed appropriate by management, letters of credit are also employed to secure payment on product orders.

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. A provision for impairment regarding receivables of \$Nil was recorded during the nine months ended January 31, 2019 (2018 - \$Nil).

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 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 closely monitors 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.