UNAUDITED INTERIM FINANCIAL STATEMENTS

# CYMAT TECHNOLOGIES LTD.

**Three Months Ended July 31, 2015 and July 31, 2014**

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**TABLE OF CONTENTS**


| | Page |
|---|---|
| **Financial Statements** | |
| Statements of Financial Position | 1 |
| Statements of Operations, Comprehensive Loss and Deficit | 2 |
| Statements of Changes in Equity (Deficiency) | 3 |
| Statements of Cash Flows | 4 |
| **Notes to Financial Statements** | 5-14 |

# INTERIM STATEMENTS OF FINANCIAL POSITION

**(Unaudited)**

| As at: | July 31, 2015 $ | April 30, 2015 $ |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | **95,802** | 302,462 |
| Restricted cash | **14,000** | 14,000 |
| Trade and other receivables | **113,562** | 171,975 |
| Inventory [note 5] | **110,972** | 211,079 |
| Prepaid expenses | **12,897** | 20,072 |
| **Total current assets** | **347,233** | 719,588 |
| Other assets | **27,930** | 27,930 |
| Property, plant and equipment, net | **274,827** | 291,633 |
| Licenses and technology rights | **-** | - |
| **Total assets** | **649,990** | 1,039,151 |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Trade and other payables | **588,654** | 583,058 |
| Deferred revenue | **-** | 5,867 |
| Current portion of deferred rent liability | **8,802** | 8,802 |
| Current portion of promissory notes payable [note 6] | **138,862** | 137,173 |
| Current portion of repayable government contributions [note 7] | **74,440** | 73,944 |
| Current portion of convertible debentures [note 8] | **11,365** | 18,778 |
| **Total current liabilities** | **822,123** | 827,622 |
| **Non-current liabilities** | | |
| Deferred rent liability | **17,604** | 19,804 |
| Promissory notes payable [note 6] | **402,074** | 432,074 |
| Convertible debentures [note 8] | **1,773,544** | 1,694,215 |
| **Total liabilities** | **3,015,345** | 2,973,715 |
| **EQUITY (DEFICIENCY)** | | |
| Share capital [note 9] | **65,782,189** | 65,782,189 |
| Contributed surplus | **6,565,651** | 5,983,031 |
| Equity portion of convertible debentures | **304,738** | 304,738 |
| Warrants [note 10] | **305,745** | 843,895 |
| Deficit | **(75,323,678)** | (74,848,417) |
| **Total equity (deficiency)** | **(2,365,355)** | (1,934,564) |
| **Total liabilities and equity** | **649,990** | 1,039,151 |

*See accompanying notes*

On behalf of the Board:

Michael Liik — Director

Jon Gill — Director

# INTERIM STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

**(Unaudited)**

| | Three Months Ended | |
|---|---|---|
| | **July 31** | July 31 |
| | **2015** | 2014 |
| | **$** | $ |
| **Revenues** | **257,148** | 146,740 |
| | | |
| Plant operating expenses | **330,391** | 135,329 |
| Research and material testing expenses | **1,284** | 1,605 |
| Selling, general and administrative expenses | **273,925** | 212,240 |
| | **605,600** | 349,174 |
| Loss from operations | **(348,452)** | (202,434) |
| | | |
| Foreign exchange gain (loss) | **(1,382)** | (1,112) |
| Interest and financing expense [notes 6, 7 and 8] | **(125,427)** | (34,858) |
| | **(126,809)** | (35,970) |
| **Net loss and comprehensive loss for the period** | **(475,261)** | (238,404) |
| | | |
| Deficit, beginning of the period | **(74,848,417)** | (73,677,210) |
| Net loss | **(475,261)** | (238,404) |
| **Deficit, end of the period** | **(75,323,678)** | (73,915,614) |
| | | |
| **Basic and diluted net loss per share** | **(0.03)** | (0.02) |
| | | |
| **Weighted average number of shares:** | | |
| **Basic and diluted** | **14,457,180** | 14,407,180 |

*See accompanying notes*

# INTERIM STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)

| | Common Shares[1] | | Contributed Surplus | Equity Portion of Convertible Debentures | Warrants | Deficit | Total Shareholders' Equity (Deficiency) |
|---|---|---|---|---|---|---|---|
| | # | $ | $ | $ | $ | $ | $ |
| **May 1, 2014** | **144,071,876** | **65,772,189** | **5,885,263** | **-** | **538,150** | **(73,677,210)** | **(1,481,608)** |
| Stock-based compensation | - | - | 1,978 | - | - | - | 1,978 |
| Net loss for the period | - | - | - | - | - | (238,404) | (238,404) |
| **July 31, 2014** | **144,071,876** | **65,772,189** | **5,887,241** | **-** | **538,150** | **(73,915,614)** | **(1,718,034)** |
| **Effect of share consolidation [note 9]** | **14,407,180** | **-** | **-** | **-** | **-** | **-** | **-** |
| Stock-based compensation and consulting fees | - | - | 95,790 | - | - | - | 95,790 |
| Issuance of convertible debentures | - | - | - | 306,256 | 305,745 | - | 612,001 |
| Conversion of convertible debenture | 50,000 | 10,000 | - | (1,518) | - | - | 8,482 |
| Net loss for the period | - | - | - | - | - | (932,803) | (932,803) |
| **April 30, 2015** | **14,457,180** | **65,782,189** | **5,983,031** | **304,738** | **843,895** | **(74,848,417)** | **(1,934,564)** |
| Expiration of warrants | - | - | 538,150 | - | (538,150) | - | - |
| Stock-based compensation and consulting fees | - | - | 44,470 | - | - | - | 44,470 |
| Net loss for the period | - | - | - | - | - | (475,261) | (475,261) |
| **July 31, 2015** | **14,457,180** | **65,782,189** | **6,565,651** | **304,738** | **305,745** | **(75,323,678)** | **(2,365,355)** |

*See accompanying notes*

1. In June of 2014 the Company enacted a share consolidation whereby 10 pre-consolidation common shares were exchanged for 1 post-consolidation common share (See Note 9).

# INTERIM STATEMENTS OF CASH FLOWS

**(Unaudited)**

| | Three Months Ended | |
|---|---|---|
| | **July 31, 2015** | July 31, 2014 |
| | **$** | $ |
| **Cash and cash equivalents provided by (used in):** | | |
| **OPERATING ACTIVITIES** | | |
| Net loss for the period | **(475,261)** | (238,404) |
| Add items not involving cash | | |
| Depreciation and amortization | **16,805** | 16,293 |
| Royalties and interest on promissory notes [note 6] | **(28,310)** | 18,442 |
| Interest on convertible debentures [note 8] | **25,760** | 10,012 |
| Stock-based compensation expense [note 11] | **39,171** | 1,978 |
| Stock-based consulting fees [note 11] | **5,300** | - |
| Non-cash interest and financing expense [note 8] | **46,156** | 3,120 |
| | **(370,379)** | (188,559) |
| Changes in non-cash working capital balances related to operations: | | |
| Trade and other receivables | **58,413** | (2,290) |
| Inventory | **100,107** | (68,048) |
| Prepaid expenses | **7,175** | 1,300 |
| Trade and other payables | **5,596** | (117,691) |
| Deferred revenue | **(5,867)** | - |
| Deferred rent liability | **(2,200)** | (2,200) |
| **Cash used in operating activities** | **(207,155)** | (377,488) |
| | | |
| **FINANCING ACTIVITIES** | | |
| Proceeds from convertible debenture issuance, net of promissory note settlement | **-** | 622,000 |
| Repayment of government contributions | **495** | (33,902) |
| **Cash provided by financing activities** | **495** | 588,098 |
| | | |
| **Net increase in cash and cash equivalents during the period** | **(206,660)** | 210,610 |
| Cash and cash equivalents, beginning of period | **302,462** | 101,748 |
| **Cash and cash equivalents, end of period** | **95,802** | 312,358 |
| | | |
| **Supplemental cash flow information** | | |
| Settlement of promissory notes with convertible debt | **-** | 598,000 |
| Interest and financing expenses paid | **71,762** | 736 |

*See accompanying notes*

## 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 and blast mitigation applications and 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’s assessment of the realizable value 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.

### Going Concern Uncertainty

To date, the Company has financed its operations primarily through share 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 July 31, 2015, 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 raising additional financing through borrowings or equity financing and ultimately achieving future profitable operations. 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 Corporation’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 months ended July 31, 2015 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, 2015, 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, 2015.

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 July 31, 2015. The Company’s Board of Directors approved these financial statements on September 29, 2015.

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

### 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.

### Revenue recognition

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

**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 issued in conjunction with promissory notes are treated as financial liabilities at fair value through profit or loss.

*(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, promissory notes payable, 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. Promissory notes payable, 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. 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. 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.

**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 |
| 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 to sell 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.

**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.

**Promissory notes**

The Company issued promissory notes that included an embedded perpetual royalty that survives the maturity of the promissory notes. 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.

**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.

**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.

## 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 ended April 30, 2014. 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 addresses the classification, measurement and derecognition of financial assets and financial liabilities, substantially overhauls accounting requirements related to hedging and introduces a new credit loss impairment model. The IASB also has a separate active project on accounting for macro hedging.

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.

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 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.

## 5. INVENTORY

| | **July 31, 2015**<br>**$** | April 30, 2015<br>$ |
|---|---|---|
| Raw materials and consumables | **20,562** | 42,042 |
| Work-in-process and finished goods | **90,410** | 169,037 |
| | **110,972** | 211,079 |

During the three months ended July 31, 2015, the Company recorded a charge of $nil (2014 - $nil) to reduce the carrying values of inventory to net realizable values.

## 6. PROMISSORY NOTES PAYABLE

| | **July 31, 2015**<br>**$** | April 30, 2015<br>$ |
|---|---|---|
| Promissory notes | **-** | - |
| Promissory notes – accrued royalties | **540,936** | 569,247 |
| | **540,936** | 569,247 |
| Less: current portion | **138,862** | 137,173 |
| | **402,074** | 432,074 |

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 additional consideration of the perpetual royalty indicates that the value of the Notes granted is in excess of the fair value of consideration received. The perpetual royalty survives the maturity of the Notes, which were to mature on July 31, 2014. The Notes were secured by a claim on the patents and related intellectual property regarding the SAF manufacturing process. Gross proceeds from the issuance of the Notes included $218,367, in settlement of advances from a related party. 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.

In recording the liability for the promissory notes payable, 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 45%. The total accrued royalty amount includes royalties accrued based on sales pertaining to the period July 31, 2015 in the amount of $17,466 (April 30, 2015 - $45,777) and royalties estimated for future periods in the amount of $523,470 (April 30, 2015 - $523,470).

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

Interest and financing expense for the three months ended July 31, 2015 includes interest in the amount of $Nil (July 31, 2014 - $11,959) and cash-based royalties in the amount of $12,424 (July 31, 2014 - $7,219) relating to the Notes, with interest of $Nil (July 31, 2014 - $4,595) and royalties of $4,773 (July 31, 2014 - $2,774) pertaining to a related party.

## 7. TECHNOLOGY PARTNERSHIPS CANADA ["TPC"] CONTRIBUTIONS

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

| | **July 31, 2015** | April 30, 2015 |
|---|---|---|
| | **$** | $ |
| Repayable government contributions, beginning balance | **73,944** | 130,449 |
| Repayment of contributions | **-** | (60,000) |
| Interest | **496** | 3,495 |
| Repayable government contributions, ending balance | **74,440** | 73,944 |

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 is 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 three months ended July 31, 2015, an interest expense in the amount of $496 (July 31, 2014 - $1,097) was recorded on the liability under the Debt Settlement Agreement at an interest rate equal to the bank rate plus 3% (4.00% at period end) which is the interest rate inherent in the Debt Settlement Agreement.

## 8. CONVERTIBLE DEBENTURES

In July 2014, August 2014 and April 2015, the Company issued Convertible Debentures (the "Debentures") with aggregate face values of $1,220,000, $395,000 and $526,250, respectively, 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.

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 value of the loan component, in the amount of $1,529,249, was 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 value of the loan component is being accreted to its 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 is as follows:

| | **July 31, 2015** | April 30, 2015 |
|---|---|---|
| | **$** | $ |
| Convertible debt issued July 2014 (Face value $1,210,000) | **987,590** | 849,830 |
| Convertible debt issued August 2014 (Face value $395,000) | **322,842** | 278,615 |
| Convertible debt issued April 2015 (Face value $526,250) | **402,561** | 400,804 |
| Interest accrued | **66,352** | 155,120 |
| Interest paid | **(40,592)** | (58,791) |
| Interest accretion (non-cash) | **46,156** | 95,897 |
| Debentures converted (Face value of $10,000) | **-** | (8,482) |
| | **1,784,909** | 1,712,993 |
| Less: current portion | **(11,365)** | (18,778) |
| | **1,773,544** | 1,694,215 |

In January 2015, Debentures with a face value of $10,000 were converted by the holder into 50,000 common shares.

Interest and financing expense for the three months ended July 31, 2015, includes Debenture interest in the amount of $112,508 (July 31, 2014 - $13,132), including $8,631 (July 31, 2014 - $2,042) pertaining to a related party.

## 9. SHARE CAPITAL

[a] The Company is authorised to issue an unlimited number of common shares.

[b] In June of 2014, the Company enacted a Share Consolidation (the "Consolidation") whereby ten (10) pre-consolidation common shares were exchanged for one (1) post-consolidation common share. After the Consolidation, issued and outstanding common shares totalled approximately 14,407,180 shares. As a result of the Consolidation, the warrants and stock options that were outstanding at the time were also reduced in number by a factor of ten and their associated exercise prices were adjusted by a multiple of ten. The numbers of outstanding common shares reflected in these financial statements have been retroactively adjusted to give effect to the Consolidation. This adjustment affects the weighted average number of common shares and the associated loss per share calculations, among other share-related figures.

[c] In January 2015, the Company issued 50,000 common shares as the result of the conversion of convertible debentures with a face value of $10,000.

[d] To date, the Company has not paid dividends on its common shares.

## 10. WARRANTS

| | | **2015** | | April 30, 2014 |
|---|---|---|---|---|
| | **Number** | **$** | Number | $ |
| Warrants, beginning balance | **13,784,110** | **843,895** | 3,077,860 | 538,150 |
| Issued during the period | **-** | **-** | 10,706,250 | 305,745 |
| Expired during the period | **(3,077,860)** | **(538,150)** | - | - |
| Warrants, ending balance | **10,706,250** | **305,745** | 13,784,110 | 843,895 |

[a] In July 2014, August 2014 and April 2015, the Company issued an aggregate of 10,706,250 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] 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.

## 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 2,881,437.

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.

On June 19, 2015, the Company granted 447,859 stock options to certain of its directors, officers and employees, with an exercise price of $0.125 per share. The options vest in three tranches over a two-year period and expire on June 19, 2020.

During the three months ended July 31, 2015, the Company recognized a share-based compensation expense in the amount of $39,171 (July 31, 2014 - $1,978). Share-based compensation expense is included in selling, general and administrative expenses.

Options relating to consulting services were issued on April 24, 2015. A related expense in the amount of $5,299 was recorded at the estimated value of the services received.

## 12. RELATED PARTY TRANSACTIONS

During the three months ended July 31, 2015, the Company received advances totaling $Nil (July 31, 2014 - $14,500) from certain officers of the Company and repaid advances totaling $Nil (July 31, 2014 - $14,500).

## 13. COMMITMENTS AND CONTINGENCIES

The Company leases its manufacturing and office premises. The lease is in effect until July 31, 2018. As at July 31, 2015, the future minimum annual lease payments (excluding taxes and operating expenses) under operating leases in aggregate are as follows:

| | $ |
|---|---|
| 2016 | 113,031 |
| 2017 | 150,708 |
| 2018 | 150,708 |
| 2019 | 37,677 |