

UNAUDITED INTERIM FINANCIAL STATEMENTS

**CYMAT TECHNOLOGIES LTD.**

October 31, 2017 and October 31, 2016

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## **UNAUDITED INTERIM FINANCIAL STATEMENTS**

**Three and Six Months ended October 31, 2017 and October 31, 2016**

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

| <b>As at:</b>                                      | <b>October 31,<br/>2017</b> | <b>April 30,<br/>2017</b> |
|--|-----------------------------|---------------------------|
|  | <b>\$</b>                   | <b>\$</b>                 |
| <b>ASSETS</b>                                      |                             |                           |
| <b>Current assets</b>                              |                             |                           |
| Cash and cash equivalents                          | 579,071                     | 458,388                   |
| Restricted cash                                    | -                           | 14,000                    |
| Trade and other receivables                        | 180,404                     | 120,840                   |
| Inventory [Note 5]                                 | 160,169                     | 128,676                   |
| Prepaid expenses                                   | 2,300                       | 14,130                    |
| <b>Total current assets</b>                        | <b>921,944</b>              | <b>736,034</b>            |
| Other assets                                       | 27,930                      | 27,930                    |
| Property, plant and equipment, net                 | 270,671                     | 232,038                   |
| Licenses and technology rights                     | -                           | -                         |
| <b>Total assets</b>                                | <b>1,220,545</b>            | <b>996,002</b>            |
| <b>LIABILITIES</b>                                 |                             |                           |
| <b>Current liabilities</b>                         |                             |                           |
| Trade and other payables                           | 470,797                     | 704,504                   |
| Deferred revenue                                   | -                           | 43,230                    |
| Current portion of deferred rent liability         | 6,601                       | 8,802                     |
| Current portion of accrued royalties [Note 6]      | 187,986                     | 187,986                   |
| Current portion of convertible debentures [Note 7] | -                           | 2,875,766                 |
| <b>Total current liabilities</b>                   | <b>665,384</b>              | <b>3,820,288</b>          |
| <b>Non-current liabilities</b>                     |                             |                           |
| Deferred rent liability                            | -                           | 2,200                     |
| Accrued royalties [Note 6]                         | 347,796                     | 347,796                   |
| <b>Total liabilities</b>                           | <b>1,013,180</b>            | <b>4,170,284</b>          |
| <b>EQUITY (DEFICIENCY)</b>                         |                             |                           |
| Share capital [Note 8]                             | 71,064,924                  | 66,679,985                |
| Contributed surplus                                | 7,243,018                   | 6,759,770                 |
| Equity portion of convertible debentures [Note 9]  | -                           | 338,912                   |
| Warrants [Note 10]                                 | 141,574                     | 452,764                   |
| Deficit  | (78,242,151)                | (77,405,713)              |
| <b>Total equity (deficiency)</b>                   | <b>207,365</b>              | <b>(3,174,282)</b>        |
| <b>Total liabilities and equity (deficiency)</b>   | <b>1,220,545</b>            | <b>996,002</b>            |

See accompanying Notes

On behalf of the Board:

*Michael Liiik*  
Director

*Jon Gill*  
Director

# INTERIM STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

(Unaudited)

|   | Three Months Ended  |              | Six Months Ended    |              |
|---|---------------------|--------------|---------------------|--------------|
|   | October 31          | October 31   | October 31          | October 31   |
|   | 2017                | 2016         | 2017                | 2016         |
|   | \$                  | \$           | \$                  | \$           |
| <b>Revenues</b>                                       | <b>381,303</b>      | 587,280      | <b>948,347</b>      | 1,459,812    |
| Plant operating expenses                              | <b>354,271</b>      | 359,104      | <b>674,608</b>      | 815,116      |
| Research and material testing expenses                | <b>11,058</b>       | 1,027        | <b>11,880</b>       | 2,055        |
| Selling, general and administrative expenses          | <b>411,551</b>      | 300,607      | <b>948,854</b>      | 648,419      |
|   | <b>776,880</b>      | 660,738      | <b>1,635,342</b>    | 1,465,590    |
| (Loss) income from operations                         | <b>(395,577)</b>    | (73,458)     | <b>(686,995)</b>    | (5,778)      |
| Foreign exchange gain (loss)                          | <b>24,380</b>       | (1,875)      | <b>8,403</b>        | (4,905)      |
| Interest and financing expense [Notes 6 and 7]        | <b>(18,225)</b>     | (192,196)    | <b>(157,846)</b>    | (394,073)    |
|   | <b>6,155</b>        | (194,071)    | <b>(149,443)</b>    | (398,978)    |
| <b>Net loss and comprehensive loss for the period</b> | <b>(389,422)</b>    | (267,529)    | <b>(836,438)</b>    | (404,756)    |
| Deficit, beginning of the period                      | <b>(77,852,729)</b> | (76,499,020) | <b>(77,405,713)</b> | (76,361,793) |
| Net loss  | <b>(389,422)</b>    | (267,529)    | <b>(836,438)</b>    | (404,756)    |
| <b>Deficit, end of the period</b>                     | <b>(78,242,151)</b> | (76,766,549) | <b>(78,242,151)</b> | (76,766,549) |
| <b>Basic and diluted net loss per share</b>           | <b>(0.01)</b>       | (0.02)       | <b>(0.03)</b>       | (0.03)       |
| <b>Weighted average number of shares:</b>             |                     |              |                     |              |
| <b>Basic and diluted</b>                              | <b>37,124,331</b>   | 15,231,311   | <b>31,681,682</b>   | 14,891,051   |

See accompanying Notes

# INTERIM STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)

(Unaudited)

|  | Common Shares     |                   | Contributed      | Equity Portion<br>of Convertible |                |                     | Total                                |
|--|-------------------|-------------------|------------------|----------------------------------|----------------|---------------------|--------------------------------------|
|  | #                 | \$                | Surplus          | Debentures                       | Warrants       | Deficit             | Shareholders'<br>Equity (Deficiency) |
|  |                   |                   | \$               | \$                               | \$             | \$                  | \$                                   |
| <b>May 1, 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                     | -                 | -                 | 121,708          | -                                | -              | -                   | 121,708                              |
| Exercise of employee stock options           | 27,477            | 8,149             | (4,066)          | -                                | -              | -                   | 4,083                                |
| Equity issued by private placement           | 2,500,000         | 347,725           | -                | -                                | 149,025        | -                   | 496,750                              |
| Net loss for the period                      | -                 | -                 | -                | -                                | -              | (404,756)           | (404,756)                            |
| <b>October 31, 2016</b>                      | <b>17,051,963</b> | <b>66,152,395</b> | <b>6,700,962</b> | <b>344,878</b>                   | <b>495,795</b> | <b>(76,766,549)</b> | <b>(3,072,519)</b>                   |
| Stock-based compensation and consulting fees | -                 | -                 | 63,614           | -                                | -              | -                   | 63,614                               |
| 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           | 28,333            | 9,623             | (4,806)          | -                                | -              | -                   | 4,817                                |
| Net loss for the period                      | -                 | -                 | -                | -                                | -              | (639,164)           | (639,164)                            |
| <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>                   |
| Stock-based compensation and consulting fees | -                 | -                 | 325,944          | -                                | -              | -                   | 325,944                              |
| Conversion of convertible debenture          | 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                      | -                 | -                 | -                | -                                | -              | (836,438)           | (836,438)                            |
| <b>October 31, 2017</b>                      | <b>37,124,331</b> | <b>71,064,924</b> | <b>7,243,018</b> | <b>-</b>                         | <b>141,574</b> | <b>(78,242,151)</b> | <b>207,365</b>                       |

See accompanying Notes

**INTERIM STATEMENTS OF CASH FLOWS**

(Unaudited)

|   | <b>Three Months Ended</b> |                   | <b>Six Months Ended</b> |                   |
|---|---------------------------|-------------------|-------------------------|-------------------|
|   | <b>October 31</b>         | <b>October 31</b> | <b>October 31</b>       | <b>October 31</b> |
|   | <b>2017</b>               | <b>2016</b>       | <b>2017</b>             | <b>2016</b>       |
|   | <b>\$</b>                 | <b>\$</b>         | <b>\$</b>               | <b>\$</b>         |
| <b>Cash and cash equivalents provided by (used in):</b>                       |                           |                   |                         |                   |
| <b>OPERATING ACTIVITIES</b>   |                           |                   |                         |                   |
| Net loss for the period   | (389,422)                 | (267,529)         | (836,438)               | (404,756)         |
| Add items not involving cash  |                           |                   |                         |                   |
| Depreciation and amortization   | 14,338                    | 16,005            | 27,802                  | 32,010            |
| Interest on repayable government contributions                                | -                         | 368               | -                       | 1,013             |
| Interest on convertible debentures [Note 7]                                   | -                         | 31,346            | (401,380)               | 71,947            |
| Stock-based compensation expense [Note 11]                                    | 79,536                    | 30,852            | 305,444                 | 121,708           |
| Stock-based consulting fees [Note 11]   | -                         | -                 | 20,500                  | -                 |
| Non-cash interest and financing expense [Notes 6 and 7]                       | -                         | 76,565            | 57,996                  | 148,344           |
|   | (295,548)                 | (112,393)         | (826,076)               | (29,734)          |
| Changes in non-cash working capital   |                           |                   |                         |                   |
| balances related to operations:   |                           |                   |                         |                   |
| Restricted cash   | 14,000                    | -                 | 14,000                  | -                 |
| Trade and other receivables   | 35,573                    | 14,126            | (59,564)                | (70,229)          |
| Inventory   | 82,463                    | (17,319)          | (31,493)                | 50,372            |
| Prepaid expenses  | 10,530                    | 1,300             | 11,830                  | 333               |
| Trade and other payables  | (180,757)                 | (59,703)          | (233,707)               | (48,625)          |
| Deferred revenue  | -                         | (10,219)          | (43,230)                | (290,037)         |
| Deferred rent liability   | (2,201)                   | (2,201)           | (4,401)                 | (4,401)           |
| <b>Cash used in operating activities</b>                                      | <b>(335,940)</b>          | <b>(186,409)</b>  | <b>(1,172,641)</b>      | <b>(392,321)</b>  |
| <b>INVESTING ACTIVITIES</b>   |                           |                   |                         |                   |
| Purchase of property, plant and equipment                                     | (14,256)                  | -                 | (66,435)                | -                 |
| <b>Cash used in investing activities</b>                                      | <b>(14,256)</b>           | <b>-</b>          | <b>(66,435)</b>         | <b>-</b>          |
| <b>FINANCING ACTIVITIES</b>   |                           |                   |                         |                   |
| Proceeds from exercise of warrants  | -                         | -                 | 1,359,759               | -                 |
| Repayment of government contributions   | -                         | (30,000)          | -                       | (50,000)          |
| Proceeds from exercise of employee options                                    | -                         | -                 | -                       | 4,083             |
| Issuance of common shares and warrants  | -                         | 496,750           | -                       | 496,750           |
| Deposit on equity financing   | -                         | (210,000)         | -                       | -                 |
| <b>Cash provided by financing activities</b>                                  | <b>-</b>                  | <b>256,750</b>    | <b>1,359,759</b>        | <b>450,833</b>    |
| <b>Net increase (decrease) in cash and cash equivalents during the period</b> | <b>(350,196)</b>          | <b>70,341</b>     | <b>120,683</b>          | <b>58,512</b>     |
| Cash and cash equivalents, beginning of period                                | 929,267                   | 159,860           | 458,388                 | 171,689           |
| <b>Cash and cash equivalents, end of period</b>                               | <b>579,071</b>            | <b>230,201</b>    | <b>579,071</b>          | <b>230,201</b>    |
| <b>Supplemental cash flow information</b>                                     |                           |                   |                         |                   |
| Interest and financing expenses paid  | 43,512                    | 133,017           | 511,456                 | 187,247           |

See accompanying Notes

**NOTES TO INTERIM FINANCIAL STATEMENTS**  
**For the Three and Six Months Ended October 31, 2017 and October 31, 2016**  
**(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 October 31, 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. 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 six months ended October 31, 2017 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, 2017, 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, 2017.

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 October 31, 2017. The Company's Board of Directors approved these financial statements on December 21, 2017.

**NOTES TO INTERIM FINANCIAL STATEMENTS**  
**For the Three and Six Months Ended October 31, 2017 and October 31, 2016**  
(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 6),
- 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, 9 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 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 INTERIM FINANCIAL STATEMENTS**  
**For the Three and Six Months Ended October 31, 2017 and October 31, 2016**  
(Unaudited)

**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. The convertible debt liability is 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 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 INTERIM FINANCIAL STATEMENTS**  
**For the Three and Six Months Ended October 31, 2017 and October 31, 2016**  
(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.

**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

**NOTES TO INTERIM FINANCIAL STATEMENTS**  
**For the Three and Six Months Ended October 31, 2017 and October 31, 2016**  
**(Unaudited)**

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 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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(Unaudited)

#### **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 interim period ending July 31, 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 will not enact early adoption of this standard. The Company is currently assessing the new standard and has identified the potential for application of the new standard to affect the accounting and presentation for the accrued royalty liability. The Company is currently quantifying the potential impact of the application of this new standard.

##### Revenue

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.

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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 constrained,
- 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 will not enact early adoption of this standard. The Company is currently assessing the new standard; however, it is not expected that the adoption of this standard will have a significant impact on the financial statements.

#### 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.

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 16 will be effective for annual periods beginning on or after January 1, 2019. The Company does not anticipate early adoption of this standard and has not yet assessed its impact on the financial statements.

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**5. INVENTORY**

|                                    | <b>October 31, 2017</b> | April 30, 2017 |
|------------------------------------|-------------------------|----------------|
|                                    | <b>\$</b>               | <b>\$</b>      |
| Raw materials and consumables      | <b>81,138</b>           | 64,109         |
| Work-in-process and finished goods | <b>79,031</b>           | 64,567         |
|                                    | <b>160,169</b>          | 128,676        |

During the six months ended October 31, 2017, the Company recorded a charge of \$nil (2016 - \$nil) to reduce the carrying values of inventory to net realizable values.

**6. ACCRUED ROYALTIES**

|   | <b>October 31, 2017</b> | April 30, 2017 |
|---|-------------------------|----------------|
|   | <b>\$</b>               | <b>\$</b>      |
| Accrued royalties                               | <b>535,782</b>          | 535,782        |
| Less: accrued royalties relating to fiscal 2018 | <b>187,986</b>          | 187,986        |
|   | <b>347,796</b>          | 347,796        |

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%.

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 the period ended October 31, 2017, in the amount of \$18,225 (April 30, 2017 - \$28,452) are included in trade and other payables.

Interest and financing expense for the six months ended October 31, 2017 includes cash-based royalties in the amount of \$44,216 (October 31, 2016 - \$74,811), including an amount of \$16,988 (October, 31, 2016 - \$28,742) payable to a related party.

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## 7. 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.

In June 2017, all of the outstanding Debentures were converted by the holder 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:

|   | <b>October 31, 2017</b> | <b>October 31, 2017</b> | April 30, 2017 | April 30, 2017 |
|---|-------------------------|-------------------------|----------------|----------------|
|   | <b>Book Value</b>       | <b>Face Value</b>       | Book value     | Face Value     |
|   | <b>\$</b>               | <b>\$</b>               | <b>\$</b>      | <b>\$</b>      |
| Convertible debentures, beginning balance | 2,875,766               | 2,524,250               | 2,459,360      | 2,574,250      |
| Interest accrued                          | 55,633                  | -                       | 341,148        | -              |
| Interest paid                             | (457,013)               | -                       | (189,851)      | -              |
| Interest accretion (non-cash)             | 57,996                  | -                       | 313,142        | -              |
| Debentures converted                      | (2,532,382)             | (2,524,250)             | (48,033)       | (50,000)       |
| Convertible debentures, ending balance    | -                       | -                       | 2,875,766      | 2,524,250      |
| Less: current portion                     | -                       | -                       | (2,875,766)    | (2,524,250)    |
|   | -                       | -                       | -              | -              |

Interest and financing expense for six months ended October 31, 2017, includes Debenture interest in the amount of \$113,629 (October 31, 2016 - \$318,189), including \$10,852 (October 31, 2016 - \$28,834) pertaining to a related party.



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**8. SHARE CAPITAL**

- [a] The Company is authorised to issue an unlimited number of common shares.
- [b] In May 2016, the Company issued 27,477 common shares as the result of the exercise of employee stock options.
- [c] 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.
- [d] In November 2016, the Company issued 28,333 common shares as the result of the exercise of employee stock options.
- [e] In the months of March and April 2017, the Company issued 1,683,750 common shares as the result of the exercise of warrants.
- [f] 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.
- [g] In the months of May and June 2017, the Company issued 5,439,035 common shares as the result of the exercise of warrants.
- [h] 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 \$2,534,250.
- [i] To date, the Company has not paid dividends on its common shares.

**9. EQUITY PORTION OF CONVERTIBLE DEBENTURES**

The Debentures described in Note 7 above, included 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.

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 June 2017, all remaining outstanding Debentures were converted. As a result, an amount of \$338,912 was allocated from the recorded value of the conversion feature to the recorded value of share capital.

**10. WARRANTS**

|                             | October 31, 2017 |           | April 30, 2017 |          |
|-----------------------------|------------------|-----------|----------------|----------|
|                             | Number           | \$        | Number         | \$       |
| Warrants, beginning balance | 12,587,500       | 452,764   | 13,021,250     | 346,770  |
| Issued during the period    | -                | -         | 1,250,000      | 149,025  |
| Exercised during the period | (5,439,035)      | (153,886) | (1,683,750)    | (43,031) |
| Expired during the period   | (5,960,965)      | (157,304) | -              | -        |
| Warrants, ending balance    | 1,187,500        | 141,574   | 12,587,500     | 452,764  |



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- [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 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.
- [c] 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.
- [d] On June 30, 2017, 5,960,965 warrants with an exercise price of \$0.25 each expired unexercised.

## **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] 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.
- [b] 17,500 options with an exercise price of \$0.34 granted on January 11, 2017 to a consultant vesting immediately.
- [c] 100,000 options with an exercise price of \$0.21 granted on July 13, 2017 to a consultant vesting immediately.
- [d] 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.

During the six months ended October 31, 2017, the Company recognized a share-based compensation expense in the amount of \$305,444 (October 31, 2016 - \$121,708). 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 AND CONTINGENCIES**

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

| Fiscal Year | \$     |
|-------------|--------|
| 2018        | 75,354 |
| 2019        | 37,677 |