



Cymat Technologies Ltd.
Management's Discussion and Analysis (“MD&A”)
As at October 31, 2023

January 2, 2023

The following discussion and analysis of Cymat Technologies Ltd. [“Cymat” or the “Company”] financial condition and results of operations should be read in conjunction with the audited comparative consolidated financial statements of the Company for the year ended April 30, 2023, and the associated notes to the consolidated financial statements.

The Company prepares its unaudited interim consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board [“IASB”]. All financial information contained in this MD&A and in the unaudited consolidated interim financial statements has been prepared in accordance with IAS 34, Interim Financial Reporting.

This MD&A is dated January 2, 2023 and all amounts herein are denominated in Canadian dollars, unless otherwise stated. This MD&A reflects the accounts of Cymat and its wholly-owned subsidiary, ALU-MMC Hungary, Zrt.

The information below contains certain forward-looking statements that reflect the current view of Cymat with respect to future events and financial performance. Wherever used, the words “may”, “will”, “anticipate”, “intend”, “expect”, “plan”, “believe”, and similar expressions identify forward-looking statements. Any such forward-looking statements are subject to risks and uncertainties, and the Company's actual results of operations could differ materially from historical results or current expectations. The Company will review the forward-looking information in the preparation of the MD&A on a quarterly basis and, where appropriate, provide updated forward-looking statements based on the most current view of Cymat.

1. Company Overview and Business of Company

Cymat was incorporated on June 13, 2006 under the Business Corporations Act (Ontario) and is the successor to Duntroon Energy (formerly Cymat Corp.) which was incorporated on June 30, 1998 under the Business Corporations Act (Ontario).

Cymat develops, manufactures and sells innovative materials for industry. The Company has worldwide rights, through patents and licenses, to produce Stabilized Aluminum Foam (“SAF”). This ultra-light metallic foam is produced using a proprietary, versatile process in which gas is bubbled into molten-alloyed aluminum containing a dispersion of fine ceramic particles to create foam that is then cast into either flat panels or near-net shapes. The result is a material, which is recyclable, with a wide array of features including very low density, mechanical energy absorption, thermal and acoustic insulation, time and temperature insensitivity and has a relatively low cost of production. The technology is focused on producing products for 4 major markets: automotive, architecture, defense and general industrial markets seeking energy management systems, including the nuclear industry.

Cymat markets architectural material under the trademark, “Alusion™” and energy management products under the “SmartMetal™” trademark.

2. Selected Financial Information

The following table presents selected financial information for the three and six-month periods ended October 31, 2023 and October 31, 2022.

	Three Months Ended October 31		Six Months Ended October 31	
	2023 (\$)	2022 (\$)	2023 (\$)	2022 (\$)
Interim Statements of Operations				
Revenue	112,687	1,049,261	1,150,065	2,152,634
Plant operating expenses	505,722	1,034,678	1,572,786	2,146,932
Research and material testing expense	32,542	39,140	85,682	115,666
Selling, general and administrative expenses	767,026	1,275,985	1,746,371	2,876,262
Loss from operations	(1,192,603)	(1,300,542)	(2,254,774)	(2,986,226)
Net loss	(1,250,124)	(1,461,319)	(2,403,853)	(3,242,345)
Interim Statements of Cash Flows				
Cash used in operating activities	(886,349)	(909,658)	(1,556,362)	(1,768,822)

The following table presents selected quarterly financial information for the eight most recent quarters for the period ended October 31, 2023.

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

Three months ended,	Oct 31, 2023	Jul 31, 2023	Apr 30, 2023	Jan 31, 2023	Oct 31, 2022	Jul 31, 2022	Apr 30, 2022	Jan 31, 2022
Revenue	113	1,037	653	248	1,049	1,103	1,324	468
Plant operating expenses	506	1,067	647	530	1,035	1,112	1,051	295
Research and material testing expenses	33	53	33	35	39	77	32	33
SG&A expenses	767	979	1,059	1,170	1,276	1,600	1,415	1,291
Net Loss	(1,250)	(1,154)	(1,260)	(1,546)	(1,461)	(1,781)	(1,375)	(1,195)
Net Loss per Share	(0.02)	(0.02)	(0.02)	(0.03)	(0.02)	(0.03)	(0.02)	(0.02)
Operating cash flow	(886)	(670)	103	(796)	(910)	(859)	(1,201)	(713)

As at:	Jul 31, 2023	Jul 31, 2023	Apr 30, 2023	Jan 31, 2023	Oct 31, 2022	Jul 31, 2022	Apr 30, 2022	Jan 31, 2022
Cash & cash equivalents	209	44	324	146	1,183	2,213	2,466	3,586
Restricted cash	21	21	21	21	21	21	21	22
Working capital	(1,388)	(1,471)	(935)	118	1,538	2,396	2,599	3,528

3. Results of Operations

Comparison of the Three Months Ended October 31, 2023 and October 31, 2022

Revenue

Revenue for the second quarter of fiscal 2024 in the amount of \$113,000 represented a decrease of \$936,000, or 89%, over revenue from the second quarter of the preceding year of \$1,049,000.

Revenue for the current quarter included sales of AlusionTM in the amount of \$109,000 compared to sales of AlusionTM in the amount of \$923,000 in comparative quarter of fiscal 2023. AlusionTM sales for the current quarter were characterized by a number of significant orders that had delayed timing from management expectations. In the comparative quarter, orders shipped to Eastern Asia represented the majority of the AlusionTM sales. An order for a large American-based internet search engine company also contributed materially to the prior quarter revenue.

Sales of SmartMetalTM for the second quarter of fiscal 2024 were minimal, totalling \$4,000 as compared to sales of \$126,000 in the comparative quarter. Sales for the comparative quarter included sales of SmartMetalTM to an Asian Original Equipment Manufacturer ("OEM") for under-belly blast protection on military personnel carriers as well as an order for protective material used in the French nuclear energy industry.

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

Plant Operating Expenses

Plant operating expenses for the quarter ended October 31, 2023, were approximately \$506,000, a decrease of \$529,000, or 51%, as compared to expenses of \$1,035,000 for the quarter ended October 31, 2022.

Plant operating expenses include the direct operating expenses of labour, material, consumables, maintenance, freight and changes in inventory as well as manufacturing overhead costs. These direct operating expenses were approximately \$315,000 for the second quarter of fiscal 2024, as compared to \$860,000 for the second quarter of last fiscal year. The decline in sales volume was the primary driver of the decreased quarter-over-quarter expenses.

Plant operating expenses also includes factory overhead costs such as facility costs and utilities. These expenses totalled approximately \$60,000 for the second quarter of fiscal 2024 as compared to \$79,000 for the same quarter of fiscal 2022. Decreased electricity and natural gas usage accounted for the quarter-over-quarter decrease in expenses.

Plant operating expenses also include depreciation expense of approximately \$131,000 for the three months ended October 31, 2023, and \$96,000 for the same period ended October 31, 2022.

Research and Material Testing Expenses

Research and material testing expenses for the second quarter of fiscal 2024 included net costs in the amount of \$33,000 as compared to \$39,000 for the first quarter of last fiscal year. Expenses in the current quarter related mainly to the development of thinner SAF panels and increased cell size homogeneity. Expenses for the comparative quarter were primarily targeted towards enhancements of the foaming process.

Selling, General and Administrative Expenses (“SG&A”)

SG&A expenses for the quarter ended October 31, 2023 were approximately \$767,000, as compared to an expense of \$1,276,000 for the same quarter ended October 31, 2022. The most significant expense decreases included decreased stock option expenses related to employees (\$202,000) and consultants (\$31,000), decreased commissions expense (\$94,000), decreased salary expenses (\$81,000) due to a reduction in headcount, and decreased cash-based consulting expenses (\$56,000).

SG&A expenses also include depreciation of \$24,000 for each of the second quarters of fiscal 2024 and fiscal 2023.

Foreign Exchange Gain

For the second quarter of fiscal 2024, there was a foreign exchange loss of \$700 as compared to a foreign exchange loss of \$53,000 for the second quarter of fiscal 2023. The loss for the prior quarter was largely produced by the effect of a strengthening US dollar on payables denominated in US dollars.

Interest and Financing Expense

Interest and financing expense for the three months ended October 31, 2023, of \$57,000 (2022 - \$107,000), includes \$5,000 in royalty-based financing fees (2022 - \$55,000), \$47,000 of interest regarding the lease liability (2022 - \$46,000) and \$5,000 regarding the accretion of interest on the loan received through the federal government's Regional Relief and Recovery Fund (2022 - \$5,000).

Net Income (Loss)

The net loss for the three months ended October 31, 2023 of \$1,250,000 (2022 – \$1,461,000) includes the non-cash items of depreciation of approximately \$157,000 (2022 – \$121,000), share-based compensation expenses of approximately \$132,000 (2022 – \$365,000), and non-cash interest arising from the RRRF loan of \$5,000 (2022 - \$5,000).

Comparison of the Six Months Ended October 31, 2023 and October 31, 2022

Revenue

Revenue for the first half of fiscal 2024 in the amount of \$1,150,000 represented a decrease of \$1,003,000, or 47%, over revenue from the first half of the preceding year of \$2,153,000.

Revenue for the current period included sales of Alusion™ in the amount of \$1,116,000 compared to sales of Alusion™ in the amount of \$2,027,000 in comparative period of fiscal 2023. Major Alusion™ projects for the recently completed six months include cladding for the Nature of Innovation Technology Park in Bolzano, Italy and the façade of Wildflower Studios, a seven-story film production studio located in New York City. Major projects in the comparative year include cladding for the expansion of the Spokane Convention Center, the Lithuania's National Science and Innovation Center and cladding for an internet search engine company. Additionally, in the prior period several large architectural panel orders shipped to Eastern Asia.

The first half of fiscal 2024 had SmartMetal™ sales of \$34,000, while the comparative period sales included \$126,000 of SmartMetal™ revenue. The current period sales were primarily comprised of underbelly blast protection kits for military personnel transport. Sales for the comparative quarter also included sales of SmartMetal™ vehicle blast protection kits as well as an order for protective material used in the French nuclear energy industry.

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

Plant Operating Expenses

Plant operating expenses for the six months ended October 31, 2023, were approximately \$1,573,000, a decrease of \$574,000, or 27%, as compared to expenses of \$2,147,000 for the six months ended October 31, 2022.

Plant operating expenses include the direct operating expenses of labour, material, consumables, maintenance, freight and changes in inventory as well as manufacturing overhead costs. These direct operating expenses were approximately \$1,168,000 for the first half of fiscal 2024, as compared to \$1,813,000 for the first half of last fiscal year. The decline in sales volume was the primary driver of the decreased quarter-over-quarter expenses.

Plant operating expenses also includes factory overhead costs such as facility costs and utilities. These expenses totalled approximately \$143,000 for the first half of fiscal 2024 as compared to \$179,000 for the same period of fiscal 2022. Decreased electricity and natural gas usage accounted for the period-over-period decrease in expenses.

Plant operating expenses also include depreciation expense of approximately \$261,000 for the six months ended October 31, 2023, and \$154,000 for the same period ended October 31, 2022.

Research and Material Testing Expenses

Research and material testing expenses for the first half of fiscal 2024 included net costs in the amount of \$86,000 as compared to \$116,000 for the first half of last fiscal year. Expenses in the current quarter related mainly to the development of thinner SAF panels and increased cell size homogeneity. Expenses for the comparative quarter were primarily targeted towards enhancements of the foaming process.

Selling, General and Administrative Expenses (“SG&A”)

SG&A expenses for the six months ended October 31, 2023 were approximately \$1,746,000, as compared to an expense of \$2,876,000 for the same period ended October 31, 2022. The most significant expense decreases included decreased stock option expenses related to employees (\$735,000) and consultants (\$127,000), decreased salary expenses (\$83,000) due to a reduction in headcount, decreased marketing expenses (\$48,000) and decreased cash-based consulting expenses (\$48,000).

SG&A expenses also include depreciation of \$48,000 for the six months ended October 31, 2023, and \$38,000 for the six months ended October 31, 2022.

Foreign Exchange Gain

For the first half of fiscal 2024, there was a foreign exchange gain of \$13,000 as compared to a foreign exchange loss of \$45,000 for the first half of fiscal 2023. The effect of a strengthened Canadian dollar on US and Euro denominated payables was the primary driver of the current period’s gain. The loss for the prior period was largely produced by the effect of a strengthening US dollar on payables denominated in US dollars.

Interest and Financing Expense

Interest and financing expense for the six months ended October 31, 2023, of \$162,000 (2022 - \$195,000), includes \$57,000 in royalty-based financing fees (2022 - \$113,000), \$95,000 of interest regarding the lease liability (2022 - \$72,000) and \$10,000 regarding the accretion of interest on the loan received through the federal government’s Regional Relief and Recovery Fund (2022 - \$9,000).

Net Income (Loss)

The net loss for the six months ended October 31, 2023 of \$2,404,000 (2022 – \$3,242,000) includes the non-cash items of depreciation of approximately \$313,000 (2022 – \$194,000), share-based compensation expenses of approximately \$281,000 (2022 – \$1,144,000), and non-cash interest arising from the RRRF loan of \$10,000 (2022 - \$9,000). The loss for the six months ended October 31, 2022, also includes a loss on the disposal of production equipment of \$15,000.

4. Liquidity and Capital Resources

Sources and Uses of Cash

As at October 31, 2023, the Company had approximately \$209,000 of cash and cash equivalents on hand. For the six months ended October 31, 2023, the cash flow used by operating activities was approximately \$1,556,000 (2022 – used by operations \$1,769,000). For the current period, cash utilized by operating activities was the result of a net loss adjusted for items not involving cash of approximately \$1,800,000 (2022 – loss adjusted for non-cash items of \$1,880,000) and cash provided by changes in non-cash working capital balances of \$243,000 (2022 –\$112,000 provided by changes in non-cash working capital).

For the six months ended October 31, 2023, cash used in investing activities of \$13,000 was the result of improvements to the production line. For the six months ended October 31, 2022, cash used in investing activities of \$703,000 was the result of capital expenditures that included production line upgrades, the purchase of a drying oven, plant lighting upgrades, product display area renovations and laboratory equipment purchases.

For the six months ended October 31, 2023, cash provided by financing activities in the amount of \$1,455,000 was primarily the result of the private placement of equity units (\$1,136,000) and the exercise of warrants (\$412,000), partially offset by building lease payments (\$73,000) and loan repayments (\$21,000). For the six months ended October 31, 2022, cash provided by financing activities in the amount of \$1,188,000 was the result of the exercise of warrants (\$768,000) and stock options (\$438,000), partially offset by building lease payments (\$18,000).

Investments in Property, Plant and Equipment

Management maintains its capital expenditure with the goal of meeting expected production demands and to support research and development initiatives.

Licenses and technology rights

Cymat controls the following patent elements related to its SAF which cover:

- the fundamental process to make foam, irrespective of final shape;
- the fundamental process to make foam as a shaped part or a flat panel; and
- the fundamental process to make shaped parts using displacement casting.

The scope of patent protection provides Cymat with important cost advantages in the production of aluminum foams.

Cymat continues to develop and protect its intellectual property and its proprietary manufacturing processes. It is Cymat's intention to continue to vigorously employ all legal remedies available to enforce its intellectual property rights.

Going Concern Uncertainty

To date, operational activities have not been sufficient, on their own, to finance the Company's requirements. Financings consisting primarily of equity offerings have been used to supplement revenue streams. 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 has incurred significant operating losses and cash outflows from operations.

As at October 31, 2023, 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 interim consolidated 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 consolidated financial statements, adjustments might be necessary in the carrying values of assets and liabilities, the statement of consolidated financial position classifications and the reported expenses. Such adjustments could be material.

5. Investments and Capitalization

Cymat is listed on the TSX Venture Exchange, trading under the symbol CYM. Cymat is also listed on the OTCQB Exchange in the United States, trading under the symbol CYMHF.

The Company considers its capital to be its equity which consists of share capital, subscription receipts, contributed surplus, advisory options/warrants and warrants, net of the deficit. The Company's objective in managing capital is to ensure a sufficient liquidity position to finance its manufacturing operations, research and development activities, sales and administration expenses, working capital and overall capital expenditures. The Company makes every effort to manage its liquidity to minimize dilution to its shareholders when possible. The Company has funded its activities through public offerings and private placements of common shares and warrants, convertible debentures, promissory notes, royalty offerings, and grant contributions. The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management did not change during the period ended October 31, 2023.

The table below sets out the number of issued and outstanding common shares as well as the number of common shares associated with issued and outstanding convertible securities as at January 2, 2024.

Number of Securities	
Common Shares	65,694,085
Employee Stock Options	9,680,000
Warrants	<u>4,128,173</u>
Total Diluted Shares Outstanding	<u>79,502,258</u>

Share Capital

The Company is authorized to issue an unlimited number of common shares. At July 31, 2023, issued and outstanding common shares totalled approximately 60,933,485 shares. The following issuances of common shares occurred in the three months ended July 31, 2023, and the year ended April 30, 2023:

- [a] In July 2022, the Company issued 1,462,000 common shares for gross proceeds of \$767,550 as the result of the exercise of warrants with an exercise price of \$0.525.
- [b] In July 2022, the Company issued 2,135,000 common shares for gross proceeds of \$438,175 as the result of the exercise of employee stock options with an exercise price of \$0.205.
- [c] In January 2023, the Company issued 100,000 common shares for gross proceeds of \$22,000 as the result of the exercise of stock options issued to a consultant with an exercise price of \$0.22.
- [d] In May 2023, the Company issued 459,423 common shares as the result of the fulfillment of subscription receipts outstanding at the end of April 2023 arising from the exercise of warrants. Gross proceeds from the exercise of these warrants was \$147,015.
- [e] In May 2023, the Company issued 1,288,450 common shares for gross proceeds of \$412,314 as the result of the exercise of warrants with an exercise price that was adjusted to \$0.32.
- [f] In October 2023, the Company issued 4,580,600 common shares for gross proceeds of \$1,145,150, as the result of the private placement of equity units priced at \$0.25 per unit. Each equity unit consisted of one common share and one half of a common share purchase warrant.

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

Subscription Receipts

At the end of April 2023, 459,423 warrants were exercised and the issuance of the related common shares was still in process at year end. Accordingly, the proceeds from the warrant exercise were reflected as subscription receipts at April 30, 2023.

In May of 2023, these 459,423 common shares were issued and the proceeds from reallocated from subscription receipts to share capital.

Stock Options

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 10,967,722.

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] 2,905,000 stock options with an exercise price of \$0.61 granted on May 31, 2022 to certain directors and officers with one third of the options vesting on the date of grant and each of the remaining third of the options vesting on each of the subsequent two grant anniversary dates.
- [b] 250,000 stock options with an exercise price of \$0.61 granted on May 31, 2022 to a consulting firm and vesting on the date of grant.
- [c] 500,000 stock options with an exercise price of \$0.60 granted on August 17, 2022 to a consulting firm and vested on the date of grant.
- [d] 500,000 stock options with an exercise price of \$0.345 granted on December 21, 2022 to certain officers with one third of the options vesting on the date of grant and each of the remaining third of the options vesting on each of the subsequent two grant anniversary dates.
- [e] 250,000 stock options with an exercise price of \$0.27 granted on August 22, 2023 to a consultant and vested on the date of grant.

In the six months ended October 31, 2023, and the year ended April 30, 2023, the following stock options were exercised:

Date of Exercise	Option Holder	Number Of Options	Exercise Price
Jul 2022	Employee	2,035,000	\$0.205
Jul 2022	Consultant	100,000	\$0.21
Jan 2023	Consultant	100,000	\$0.22

Warrants

During the six months ended October 31, 2023, and the year ended April 30, 2023, the following transactions involving share purchase warrants occurred:

- [a] In July 2022, 1,426,000 warrants with an exercise price of \$0.525 per share were exercised and 163,492 warrants expired unexercised.
- [b] In April 2023, the Company received approval from the TSX Venture Exchange (the “Exchange”) to reprice the 3,859,862 warrants issued in May 2021 from an original exercise price of \$0.90 per share to a new exercise price of \$0.32 per share. The expiry date of May 5, 2023, remained unchanged. In April 2023, 459,423 of these repriced warrants were exercised. The exercise proceeds for these warrants are reflected in the subscription receipts account.
- [c] In April 2023, the Company received approval from the Exchange to issue Incentive Warrants to encourage holders of the May 2021 warrants to exercise their repriced warrants early. The Incentive Warrants have an exercise price of \$0.50 per share and an expiry date of April 28, 2025. In April 2023, 459,423 of these Incentive Warrants were issued. The fair value of the warrants was measured using the Black-Scholes pricing model calculated using a risk-free interest rate of 3.65%, volatility of 82% and expected life of 2 years.
- [d] In May 2023, 1,288,450 of the warrants adjusted to an exercise price of \$0.32 were exercised. The remaining 2,111,989 warrants expired unexercised.
- [e] In May 2023, 1,288,450 Incentive Warrants were issued. The fair value of the warrants was measured using the Black-Scholes pricing model calculated using a risk-free interest rate of 3.65%, volatility of 82% and expected life of 2 years.
- [f] In October 2023, the Company issued 2,290,300 warrants as the result of the private placement of equity units priced at \$0.25 per unit. The warrants have an exercise price of \$0.40 and an expiry date of October 19, 2025.

6. Critical Accounting Policies and Estimates

Revenue recognition

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

Accrued royalties

The Company issued promissory notes that included an embedded perpetual royalty that survived the maturity of the promissory notes. The royalties have been designated as a financial liability at fair value through profit or loss. Accordingly, the perpetual royalty is valued at the reporting date based on the most recent revenue projections. The change in estimated fair value of the royalty is recorded in income in the period in which the liability is recalculated.

Use of estimates

The preparation of these financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual amounts could differ from those estimates. Significant estimates include those used in:

- the measurement of the cost of finished goods inventory, including the allocation of costs of conversion and manufacturing overhead,
- allowance for doubtful accounts,
- the determination appropriate discount rate for valuation of the expected cash flows associated with the note receivable, assumptions about the valuation of the conversion element and assumptions about the likelihood of conversion,
- the determination of the useful lives of long-lived assets,
- the determination of the appropriate amount, if any, of the writedown in the carrying value of long term assets, including the estimation of the asset's fair value and the cost of disposal,
- the valuation of the accrued royalties on the promissory notes, including the forecasted revenues and the appropriate discount rate to apply in the determination of present value,
- the determination of whether a contract contains a lease, and if so, the determination of the appropriate discount rate and term of the lease to use in the measurement of the lease liability, and
- the measurement of the fair value of share-based compensation, including the volatility and risk-free rates used in the option valuation models and the estimation of number of options expected to vest.

The Company's assessment of the recoverable amount of property, plant and equipment 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.

Judgements

In the process of applying the Company's accounting policies, management has made judgements in assessing the primary economic environment underlying its determination that the functional currency of the consolidated entity is the Canadian dollar.

Government assistance

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

7. Accounting Standards Issued But Not Yet Applied

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

8. Related Party Transactions

Interest and financing expense for the six months ended October 31, 2023, includes cash-based royalties in the amount of \$22,000 (2022 – \$43,000) regarding a related party.

9. Risks and Uncertainties

Financial and Liquidity Risk

The Company has not yet attained sufficient sales levels to completely support its operations. As at October 31, 2023, the anticipated level of cash flow from operations for the next twelve months is not assured to be sufficient to sustain the business. In addition to being able to successfully execute its business plan, which includes increased sales, it may be necessary for the Company to raise additional financing through either borrowings or equity financing.

Interruption of Raw Material Supply

Interruption of key raw materials and manufacturing supplies could significantly impact operations and our financial position. Interruption of supply could arise from conflict-related or health-crisis-related market shortages. Cymat attempts to purchase key raw materials and supplies well in advance of their anticipated use and, where possible, seeks multiple sources for such supplies.

Outbreak of Disease

A global outbreak of disease or similar public health threat could have a material adverse effect on the operations of Cymat. In May of 2023, the World Health Organization ("WHO") declared that COVID-19 no longer constitutes a "Public Health Emergency of International Concern." However, COVID-19 still represents a global health threat. A pandemic has the potential to be highly disruptive to the global economy and has the potential to negatively impact Company sales, supply chains, labour force, manufacturing capabilities and ability to raise additional financing.

International Trade Barriers and Tariffs

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

Global Political Unrest

Political unrest and geo-political conflicts, including warfare, can have the potential to adversely affect Cymat sales. Issues are constantly evolving, and management continuously monitors political developments with an eye to mitigate potential negative impacts.

Dependence on Key Personnel

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

Proprietary Technology Protection

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

Government Regulation and Certification Requirements Imposed by Customers

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

Other Risks

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

10. Management's Assessment of Disclosure Controls and Procedures

Management is responsible for the design of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with accounting principles generally accepted in Canada. Overall, the Company believes its internal controls and procedures are effective in providing reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner.

Management is also responsible for the design and effectiveness of disclosure controls and procedures to provide reasonable assurance that material information related to the Company is made known to the Company's certifying officers.

There were no changes in the internal controls over financial reporting during the reporting period ended October 31, 2023, that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

11. Outlook

Despite the unprecedented pause in AlusionTM and SmartMetalTM orders recently experienced by Cymat, both aluminum foam product lines are expected to provide meaningful sales volumes through calendar 2024.

AlusionTM – Cymat's architectural aluminum foam – is expected to continue to represent the Company's largest source of revenue through calendar 2024. Inflation and interest rate increases have presented some headwinds for construction projects as has the Chinese economic slowdown. However, quoting activity for new projects remains healthy and Cymat has a growing AlusionTM order pipeline that exceeds \$11 Million when extended beyond the 2024 fiscal year. Only projects for which AlusionTM has been specified and official quotations have been issued are included in the pipeline amount. Near-term significant AlusionTM sales prospects includes a major installation in Saudi Arabia that has the potential to generate material additional sales relating to Neom, one the world's largest architecture projects.

SmartMetalTM defense and security development initiatives are focused on applications for blast mitigation, light-weighting and multi-threat composite panel systems. Cymat continues to deliver small volumes of underbelly blast mitigation kits to an Asian military vehicle OEM, ahead of signing a multi-year, serial production contract, anticipated to begin in calendar 2024. This OEM's first customer for its redesigned personnel transport vehicle is an Asian military force that is anticipated to eventually deploy up to 700 vehicles equipped with SmartMetalTM blast protection. This OEM is expected to market this vehicle to other military forces that currently operate previous generations of the same personnel/supply transportation vehicles. Cymat continues to demonstrate the flexibility offered by SmartMetalTM quick adaptation to design modifications and the ability to accommodate multiple vehicle variants.

Cymat expects the early calendar 2024 signing of a contract to provide a French nuclear equipment supplier with SmartMetalTM panels to be used as protection against seismic events and external threats for a nuclear energy facility located in France. This order would represent a new application for SmartMetalTM to the nuclear industry in addition to SmartMetalTM panels that are already deployed in failsafe systems for the transportation of radioactive materials. Interest in nuclear-based electricity generation is resurgent globally as a key option for the reduction of carbon emissions. Based on Cymat's demonstration of Stabilized Aluminum Foam's unique physical properties and the strength of the SmartMetalTM testing and quality control regimen, discussions of additional deployments of SmartMetalTM within the nuclear industry are ongoing.

The automotive industry continues to be a primary target of Cymat business development efforts and a main driver of expenditure levels with a focus on battery electric vehicle (“BEV”) platforms. The most mature of these initiatives involves a composite part with a core of SmartMetal™ acting to protect the underside of an electric vehicle’s battery enclosure from object impact. Recent dynamic physical impact testing proved the prototype SmartMetal™ component’s ability to provide a reduced component weight, increased energy absorption and reduced post-crash deflection. The testing report underpins Cymat’s continuing discussion with this specific OEM for the provision of this component.

The challenges of vehicle electrification faced by the automotive manufacturing community are frequently detailed in global newsfeeds. Cost minimization, weight reduction and system simplification are primary goals for BEV manufacturers. In addition to demonstrating SmartMetal™’s capability to meet these goals, the close correlation of the physical test results with our simulated computer design results demonstrates our ability to design systems and model SmartMetal™ behavior in specific applications. The independent testing report, along with the high-speed video of the test, have been incorporated into enhanced marketing collateral that has furthered progress in ongoing BEV business development initiatives as well as generating new conversations with manufacturers in the automotive space. Cymat expects to continue to invest in manufacturing, testing and information systems in demonstration of its capability meet the demands of high-volume automotive manufacturing environment.

Additionally, Cymat has component designs on the Automotive Parts Manufacturers Association’s (“APMA”) all-Canadian designed and manufactured Project Arrow prototype BEV. Based on the success of the original Project Arrow, the APMA recently announced plans for Project Arrow 2.0. This next phase aspires to use a fleet of specially designed vehicles to foster advancements in EV technology incorporating innovative sub-assembly methods and advanced manufacturing technologies. Project Arrow 2.0 has the potential to further raise the profile of SmartMetal™ within the automotive ecosystem.

Additional ongoing SmartMetal™ business opportunities include an anticipated repeat order for approximately 25,000 SmartMetal™ cylinders for use in the manufacture of non-lethal bullets. Also, SmartMetal™ continues to be supplied to Cymat’s multi-threat panel customer that has targeted US military tenders for land-based infrastructure upgrades and construction.