UNAUDITED INTERIM FINANCIAL STATEMENTS

CYMAT TECHNOLOGIES LTD.

Three and Nine Months Ended January 31, 2017 and January 31, 2016

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INTERIM STATEMENTS OF FINANCIAL POSITION

(Unaudited)

As at:	January 31, 2017 $	April 30, 2016 $
ASSETS		
Current assets		
Cash and cash equivalents	**118,222**	171,689
Restricted cash	**14,000**	14,000
Trade and other receivables	**398,867**	167,074
Inventory [Note 5]	**205,104**	180,038
Prepaid expenses	**15,497**	14,197
Total current assets	**751,690**	546,998
Other assets	**27,930**	27,930
Property, plant and equipment, net	**246,914**	286,771
Licenses and technology rights	**-**	-
Total assets	**1,026,534**	861,699
LIABILITIES		
Current liabilities		
Trade and other payables	**758,592**	761,603
Deferred revenue	**74,466**	290,037
Current portion of deferred rent liability	**8,802**	8,802
Current portion of accrued royalties [Note 6]	**203,100**	183,675
Current portion of repayable government contributions [Note 7]	**7,425**	76,855
Current portion of convertible debentures [Note 8]	**53,833**	27,491
Total current liabilities	**1,106,218**	1,348,463
Non-current liabilities		
Deferred rent liability	**4,401**	11,002
Accrued royalties [Note 6]	**341,244**	360,669
Convertible debentures [Note 8]	**2,790,238**	2,431,869
Total liabilities	**4,242,101**	4,152,003
DEFICIENCY		
Share capital [Note 9]	**66,162,018**	65,796,521
Contributed surplus	**6,731,389**	6,583,320
Equity portion of convertible debentures	**344,878**	344,878
Warrants [Note 10]	**495,795**	346,770
Deficit	**(76,949,647)**	(76,361,793)
Total deficiency	**(3,215,567)**	(3,290,304)
Total liabilities and deficiency	**1,026,534**	861,699

See accompanying Notes

On behalf of the Board:

Michael Liik — Director

Jon Gill — Director

INTERIM STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

(Unaudited)

	Three Months Ended		Nine Months Ended	
	January 31 2017	January 31 2016	**January 31 2017**	January 31 2016
	$	$	**$**	$
Revenues	**755,579**	331,970	**2,215,391**	832,903
Plant operating expenses	**389,956**	264,214	**1,205,072**	945,968
Research and material testing expenses	**1,028**	1,286	**3,083**	3,854
Selling, general and administrative expenses	**340,312**	276,351	**988,731**	816,970
	731,296	541,851	**2,196,886**	1,766,792
Income (loss) from operations	**24,283**	(209,881)	**18,505**	(933,889)
Foreign exchange loss	**(5,191)**	(12,909)	**(10,096)**	(15,551)
Interest and financing expense [Notes 6, 7 and 8]	**(202,190)**	(163,525)	**(596,263)**	(417,031)
	(207,381)	(176,434)	**(606,359)**	(432,582)
Net loss and comprehensive loss for the period	**(183,098)**	(386,315)	**(587,854)**	(1,366,471)
Deficit, beginning of the period	**(76,766,549)**	(75,828,573)	**(76,361,793)**	(74,848,417)
Net loss	**(183,098)**	(386,315)	**(587,854)**	(1,366,471)
Deficit, end of the period	**(76,949,647)**	(76,214,888)	**(76,949,647)**	(76,214,888)
Basic and diluted net loss per share	**(0.01)**	(0.03)	**(0.04)**	(0.09)
Weighted average number of shares:				
Basic and diluted	**17,079,988**	14,457,180	**16,164,129**	14,457,180

See accompanying Notes

INTERIM STATEMENTS OF CHANGES IN DEFICIENCY

(Unaudited)

	Common Shares[1]		Contributed Surplus	Equity Portion of Convertible Debentures	Warrants	Deficit	Total Shareholders' Deficiency
	#	$	$	$	$	$	$
May 1, 2015	**14,457,180**	**65,782,189**	**5,983,031**	**304,738**	**843,895**	**(74,848,417)**	**(1,934,564)**
Expiration of warrants	-	-	538,150	-	(538,150)	-	-
Stock-based compensation and consulting fees	-	-	92,893	-	-	-	92,893
Issuance of convertible debentures	-	-	-	41,026	41,025	-	82,051
Net loss for the period	-	-	-	-	-	(1,366,471)	(1,366,471)
January 31, 2016	**14,457,180**	**65,782,189**	**6,614,074**	**345,764**	**346,770**	**(76,214,888)**	**(3,126,091)**
Stock-based compensation and consulting fees	-	-	(28,261)	-	-	-	(28,261)
Conversion of convertible debenture	50,000	9,338	-	(886)	-	-	8,452
Exercise of employee stock options	17,306	4,994	(2,493)	-	-	-	2,501
Net loss for the period	-	-	-	-	-	(146,905)	(146,905)
April 30, 2016	**14,524,486**	**65,796,521**	**6,583,320**	**344,878**	**346,770**	**(76,361,793)**	**(3,290,304)**
Stock-based compensation and consulting fees	-	-	156,941	-	-	-	156,941
Exercise of employee stock options	55,810	17,772	(8,872)	-	-	-	8,900
Equity issued by private placement	2,500,000	347,725	-		149,025	-	496,750
Net loss for the period	-	-	-	-	-	(587,854)	(587,854)
January 31, 2017	**17,080,296**	**66,162,018**	**6,731,389**	**344,878**	**495,795**	**(76,949,647)**	**(3,215,567)**

See accompanying Notes

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

INTERIM STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended		Nine Months Ended	
	January 31 2017	January 31 2016	**January 31 2017**	January 31 2016
	$	$	**$**	$
Cash and cash equivalents provided by (used in):				
OPERATING ACTIVITIES				
Net loss for the period	**(183,098)**	(386,315)	**(587,854)**	(1,366,471)
Add items not involving cash				
Depreciation and amortization	**16,368**	33,254	**48,377**	66,866
Interest on repayable government contributions	**(444)**	186	**570**	1,021
Interest on convertible debentures [Note 8]	**82,689**	7,552	**154,636**	100,097
Stock-based compensation expense [Note 11]	**30,112**	21,161	**151,820**	82,973
Stock-based consulting fees [Note 11]	**5,121**	1,646	**5,121**	9,920
Non-cash interest and financing expense [Note 8]	**81,731**	58,145	**230,075**	153,436
	32,479	(264,371)	**2,745**	(952,158)
Changes in non-cash working capital balances related to operations:				
Trade and other receivables	**(161,564)**	7,373	**(231,793)**	81,907
Inventory	**(75,438)**	35,898	**(25,066)**	145,066
Prepaid expenses	**(1,633)**	867	**(1,300)**	9,342
Trade and other payables	**45,614**	(72,441)	**(3,011)**	54,830
Deferred revenue	**74,466**	72,202	**(215,571)**	150,347
Deferred rent liability	**(2,200)**	(2,201)	**(6,601)**	(6,601)
Cash used in operating activities	**(88,276)**	(222,673)	**(480,597)**	(517,267)
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	**(8,520)**	(38,806)	**(8,520)**	(38,806)
Cash used in investing activities	**(8,520)**	(38,806)	**(8,520)**	(38,806)
FINANCING ACTIVITIES				
Issuance of common shares and warrants	**-**	-	**496,750**	-
Repayment of government contributions	**(20,000)**	-	**(70,000)**	-
Proceeds from exercise of employee options	**4,817**	-	**8,900**	-
Proceeds from convertible debenture issuance	**-**	463,000	**-**	463,000
Cash provided by financing activities	**(15,183)**	463,000	**435,650**	463,000
Net (decrease) increase in cash and cash equivalents during the period	**(111,979)**	201,521	**(53,467)**	(93,073)
Cash and cash equivalents, beginning of period	**230,201**	7,868	**171,689**	302,462
Cash and cash equivalents, end of period	**118,222**	209,389	**118,222**	209,389
Supplemental cash flow information				
Interest and financing expenses paid	**3,913**	91,835	**191,160**	163,597

See accompanying Notes

1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY

Nature of Operations

Cymat Technologies Ltd. ["Cymat" or the "Company"] is a manufacturing company, which holds licenses and related patents to make, use and sell Stabilized Aluminum Foam ["SAF"]. SAF is produced utilizing a proprietary process in which gas is bubbled into molten alloyed aluminum containing a dispersion of fine ceramic particles to create foam, which is then cast into strong, lightweight panels and shapes. The Company is manufacturing SAF for use in architectural, blast mitigation and energy absorption applications. Cymat continues to develop applications for use in the automotive and industrial markets. The development of applications utilizing SAF as well as its production process involve significant financial risks, including the ability of the Company to develop and penetrate new markets, obtain additional financing as required, achieve profitable production and the ability for the Company to be able to successfully assert its intellectual property rights and protect against patent infringement.

The Company was incorporated under the Business Corporations Act (Ontario) on June 14, 2006. The Company's registered office is located at 6320-2 Danville Road, Mississauga, Ontario, L5T 2L7. Prior to June 14, 2006, the operations of the company were carried out under Cymat Corp., a company that was formed by articles of amalgamation under the Business Corporations Act (Ontario) on June 30, 1998.

Going Concern Uncertainty

To date, the Company has financed its operations primarily through share and convertible debt issuances, investment tax credits, interest income, and collaborative co-development agreements. The Company has incurred significant operating losses and cash outflows from operations. As at January 31, 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 raising additional financing through borrowings or equity financing and ultimately achieving future profitable operations. The outcome of these matters is dependent on a number of items outside the Company's control. As a result, there are material uncertainties that may cast significant doubt as to whether the Company will have the ability to continue as a going concern. These financial statements do not include any adjustments or disclosures that may result from the Corporation's inability to continue as a going concern. If the going concern assumption were not found to be appropriate for these financial statements, adjustments might be necessary in the carrying values of assets and liabilities, the statement of financial position classifications and the reported expenses. Such adjustments could be material.

2. BASIS OF PRESENTATION

These unaudited interim financial statements for the three and nine months ended January 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, 2016, 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, 2016.

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

These financial statements have been prepared on the basis of IFRS in effect as of January 31, 2017. The Company's Board of Directors approved these financial statements on March 31, 2017.

3. SIGNIFICANT ACCOUNTING POLICIES

Outlined below are those policies considered particularly significant:

Use of estimates

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

- the measurement of the cost of finished goods inventory, including the allocation of costs of conversion and manufacturing overhead,
- allowance for doubtful accounts,
- the determination of the useful lives of long lived assets,
- the determination of the appropriate amount, if any, of the writedown in the carrying value of long term assets, including the estimation of the associated future cash flows and the appropriate discount rate used to estimate the recoverable amount,
- the valuation of 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 (Note 8), 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 (Note 11).

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.

Financial instruments

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

(i) *Financial assets and liabilities at fair value through profit or loss.* A financial asset or liability is classified in this category if acquired principally for the purpose of selling. Derivatives are also included in this category unless designated as hedges. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed to income in the statement of operations and comprehensive income (loss). Gains and losses arising from changes in fair value are presented in the statement of operations and comprehensive income (loss) within other gains and losses in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized beyond twelve months of the balance sheet date, which is classified as non-current. The Company has no financial assets in this category. The accrued royalty issued in conjunction with promissory notes is treated as a financial liability at fair value through profit or loss.

(ii) *Loans and receivables.* Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise cash and cash equivalents, restricted cash, and trade and other receivables and are classified as current, except for the portion expected to be realized or paid beyond twelve months of the balance sheet date, which are classified as non-current. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

(iii) *Financial liabilities at amortized cost.* Financial liabilities at amortized cost include trade and other payables, , repayable government contributions and the liability portion of convertible debentures. Trade and other payables are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, trade and other payables are measured at amortized cost using the effective interest method. Repayable government contributions and the convertible debt liability are recognized initially at fair value and subsequently at amortized cost using the effective interest method. At the end of each reporting period, interest accretion related to repayable government contributions and the convertible debt and changes in value attributable to changes in the timing of estimated future cash flows are included in interest expense. At the end of each reporting period, the royalty accrual is recalculated and changes attributable to changes in the timing and amounts of estimated future cash flows are included in interest expense. Financial liabilities are classified as current liabilities if payment is due within twelve months of the balance sheet date. Otherwise, they are presented as non-current liabilities.

Property, plant and equipment

Property, plant and equipment are recorded at their historical cost, and presented on the statement of financial position net of accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying value or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The cost and accumulated depreciation of replaced assets are derecognized when replaced. Repairs and maintenance costs are charged to the statement of operations and comprehensive income (loss) during the period in which they are incurred.

Depreciation is calculated on a diminishing balance method so as to expense the cost of the assets less their residual values over their estimated useful lives. The depreciation rates applicable to each category of property, plant and equipment are as follows:

Office equipment	20% declining balance
Computer equipment	30% declining balance
Machinery and equipment	20% declining balance 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.

Accrued royalties

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

Convertible debentures

The convertible debentures are accounted for as a compound financial instrument that contains both a liability component, represented by the loan, and equity components, represented by the share purchase warrants and conversion feature. The Company has allocated the total proceeds of the issuance between the debt and equity components of the convertible debenture using the residual method. First the fair value of the debt component was calculated as the present value of the related cash flows using an appropriate discount rate. The remaining proceeds were allocated to the equity components of the convertible debt with this amount divided between the warrants and the conversion feature based on their relative fair values as calculated using the Black-Scholes option pricing model. The fair value of the debt portion is accreted to its face value through the recording of interest expense, calculated using the effective rate method, over the term of the convertible debentures.

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.

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.

4. ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

The IASB has issued a number of amendments to standards that are not yet effective for the fiscal period ending January 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.

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.

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

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

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

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

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

5. INVENTORY

	January 31, 2017	April 30, 2016
	$	$
Raw materials and consumables	**85,861**	26,568
Work-in-process and finished goods	**119,243**	153,470
	205,104	180,038

During the nine months ended January 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

	January 31, 2017	April 30, 2016
	$	$
Accrued royalties	**544,344**	544,344
Less: accrued royalties relating to next 12 months	**203,100**	183,675
	341,244	360,669

In January of 2014, the Company issued promissory notes (the "Notes") for gross proceeds in the aggregate amount of $568,367. The Notes carried an interest rate of 12% per annum and additional consideration of a perpetual royalty equal to one percent of sales for each pro-rata portion of $100,000 in principal. The additional consideration of the perpetual royalty indicates that the value of the Notes granted is in excess of the fair value of consideration received. The perpetual royalty survives the maturity of the Notes, which were to mature on July 31, 2014. The Notes were secured by a claim on the patents and related intellectual property regarding the SAF manufacturing process. Gross proceeds from the issuance of the Notes included $218,367, in settlement of advances from a related party. The principal amount of the notes ($568,367), as well as a portion of the accrued interest ($29,633), was settled in July 2014 by the issuance of convertible debt with a face value of $598,000. The royalty survived the settlement of the Notes.

In recording the liability for the promissory notes payable, a liability for the estimated future royalty-based financing fees payable has been recorded with an offset to (non-cash) interest and financing expense. In calculating the fair value of these accrued royalties, the Company estimated the future revenues for the next 15 years and applied a risk adjusted discount factor of 40%.

Royalties based on sales pertaining to the period ended January 31, 2017, in the amount of $63,834 (April 30, 2016 - $42,967) are included in trade and other payables.

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

Interest and financing expense for the nine months ended January 31, 2017 includes cash-based royalties in the amount of $109,111 (January 31, 2016 - $41,543), including an amount of $41,920 (January 31, 2016 - $15,961) payable to a related party.

7. TECHNOLOGY PARTNERSHIPS CANADA [“TPC”] CONTRIBUTIONS

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

	January 31, 2017	April 30, 2016
	$	$
Repayable government contributions, beginning balance	**76,855**	73,944
Repayment of contributions	**(70,000)**	-
Interest	**570**	2,911
Repayable government contributions, ending balance	**7,425**	76,855

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

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

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

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

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

During the nine months ended January 31, 2017, an interest expense in the amount of $570 (January 31, 2016 - $1,021) was recorded on the liability under the Debt Settlement Agreement at an interest rate equal to the bank rate plus 3.75% which is the interest rate inherent in the Debt Settlement Agreement.

8. CONVERTIBLE DEBENTURES

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

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

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

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

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

	January 31, 2017 Book Value $	**January 31, 2017 Face Value $**	April 30, 2016 Book value $	April 30, 2016 Face Value $
Convertible debentures, beginning balance	**2,459,360**	**2,574,250**	1,712,993	2,121,250
Convertible debt issued December 2015	**-**	**-**	380,949	463,000
Interest accrued	**256,507**	**-**	292,897	-
Interest paid	**(101,871)**	**-**	(138,709)	-
Interest accretion (non-cash)	**230,075**	**-**	219,682	-
Debentures converted	**-**	**-**	(8,452)	(10,000)
Convertible debentures, ending balance	**2,844,071**	**2,574,250**	2,459,360	2,574,250
Less: current portion	**(53,833)**	**-**	(27,491)	-
	2,790,238	**2,574,250**	2,431,869	2,574,250

Interest and financing expense for the nine months ended January 31, 2017, includes Debenture interest in the amount of $486,522 (January 31, 2016 - $361,717), including $40,116 (January 31, 2016 - $34,384) pertaining to a related party.

9. SHARE CAPITAL

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

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

[c] In March 2016, the Company issued 50,000 common shares as the result of the conversion of convertible debentures with a face value of $10,000.

[d] In April 2016, the Company issued 17,306 common shares as the result of the exercise of employee stock options.

[e] In May 2016, the Company issued 27,477 common shares as the result of the exercise of employee stock options.

[f] 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.

[g] In November 2016, the Company issued 28,333 common shares as the result of the exercise of employee stock options.

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

10. WARRANTS

	January 31, 2017		April 30, 2016	
	Number	**$**	Number	$
Warrants, beginning balance	**13,021,250**	**346,770**	13,784,110	843,895
Issued during the period	**1,250,000**	**149,025**	2,315,000	41,025
Expired during the period	**-**	**-**	(3,077,860)	(538,150)
Warrants, ending balance	**14,271,250**	**495,795**	13,021,250	346,770

[a] In December 2015, the Company issued an aggregate of 2,315,000 common share purchase warrants in conjunction with a convertible debt financing. Each warrant entitles the holder to purchase one common share at an exercise price of $0.25 until June 30, 2017.

[b] In October 2016, the Company issued equity units for gross proceeds of $500,000 via a private placement financing. Each equity unit consisted of one common share and one half of a common share purchase warrant, resulting in the issuance of 1,250,000 warrants. Each full warrant has an exercise price of $0.25 and an expiry date of October 6, 2018. The net proceeds $496,750 were allocated to common shares based on the closing price of the common shares on the TSX Venture Exchange on the day immediately preceding the closing date. As a result $347,725 was allocated to the common shares, with the residual $149,025 allocated to the warrants.

[c] As part of a series of private equity placements occurring in calendar 2012, the Company issued an aggregate of 3,077,860 common share purchase warrants. Each warrant entitles the holder to purchase one common share at an exercise price of $1.00 until May 15, 2015. These warrants expired unexercised in May 2015.

11. SHARE-BASED COMPENSATION

The Company's stock option plan allows for the issuance of options, in aggregate, to acquire up to twenty percent (20%) of the number of common shares issued and outstanding on the effective date of the plan. The aggregate number of shares reserved for issuance under the terms of the Company's stock option plan is 2,910,392.

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

[a] 447,859 options granted on June 19, 2015 with an exercise price of $0.125 to directors, officers and employees with 34% vesting upon grant, 33% vesting on June 19, 2016, and 33% vesting on June 19, 2017; and

[b] 970,000 options granted on June 7, 2016 with an exercise price of $0.20 to directors, officers and employees with 34% vesting upon grant, 33% vesting on June 7, 2017, and 33% vesting on June 7, 2018.

[c] 17,500 options granted on January 11, 2017 with an exercise price of $0.34 to a consulting firm with immediate vesting.

During the nine months ended January 31, 2017, the Company recognized a share-based compensation expense in the amount of $151,820 (January 31, 2016 - $82,973). Share-based compensation expense is included in selling, general and administrative expenses.

During the nine months ended January 31, 2017, a Company recognized a share-based consulting expense in the amount of $5,121 (January 31, 2016 - $9,920) 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 January 31, 2017, the future minimum annual lease payments (excluding taxes and operating expenses) under operating leases in aggregate for the remaining fiscal years are as follows:

	$
2017	37,677
2018	150,708
2019	37,677

13. SUBSEQUENT EVENTS

Subsequent to January 31, 2017, warrants in the aggregate number of 1,633,750 were exercised, resulting in the issuance of 1,633,750 common shares and the receipt of proceeds in the aggregate amount of $408,438.

Also subsequent to January 31, 2017, a convertible debenture with a face value of $50,000 was converted into 250,000 common shares.