

**CEMATRIX CORPORATION**  
**Management's Discussion and Analysis**  
*Three and Nine Months Ended September 30, 2017*

Date Completed: November 15, 2017

**CEMATRIX CORPORATION**  
**www.cematrix.com**

**Form 51-102F1 - Management's Discussion & Analysis  
For the Three and Nine Months Ended September 30, 2017**

*The following is the management's discussion and analysis ("MD&A") of CEMATRIX Corporation ("CEMATRIX" or the "Company") for the three and nine months ended September 30, 2017. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements of the Company for the three and nine months ended September 30, 2017 (the "Interim Consolidated Financial Statements") and the related notes thereto and the audited consolidated financial statements and MD&A of the Company for the year ended December 31, 2016 and related notes thereto. The Interim Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards. All dollar figures included therein and in this MD&A are in Canadian dollars.*

*Additional information relevant to the Company's activities can be found on SEDAR at [www.sedar.com](http://www.sedar.com). CEMATRIX is listed on the TSX Venture Exchange under the trading symbol "CVX".*

On November 15, 2017 the Audit Committee of the Company reviewed and recommended for approval by the Board of Directors of the Company the Interim Consolidated Financial Statements and MD&A for the three and nine months ended September 30, 2017. The Board of Directors of the Company has reviewed and approved the Interim Consolidated Financial Statements and MD&A on November 15, 2017.

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## **Forward Looking Statements**

This MD&A contains certain statements and disclosures that may constitute forward-looking information under applicable securities law. All statements and disclosures, other than those of historical fact, which address activities, events, outcomes, results or developments that the Company anticipates or expects may or will occur in the future (in whole or in part) should be considered forward-looking information. In some cases, forward-looking information can be identified by such terms as “forecast”, “future”, “may”, “will”, “expect”, “anticipate”, “believe”, “potential”, “enable”, “plan”, “continue”, “contemplate”, “pro-forma” or other comparable terminology. Forward-looking information presented in such statements or disclosures may, amongst other things relate to: sources of revenue and income; forecasts of capital expenditures and sources of financing thereof; the Company’s business outlook; plans and objectives of management for future operations; forecast business results; and anticipated financial performance.

The Company has identified what it considers to be the material forward-looking statements and disclosure in this MD&A and has listed them in Appendix A. The material factors, material assumptions and material risks that provide the basis for those statements and disclosure have also been provided in Appendix A.

The forward-looking information in statements or disclosure in this MD&A is based (in whole or in part) upon factors which may cause actual results, performance or achievements of the Company to differ materially from those contemplated (whether expressly or by implication) in the forward-looking information. Various assumptions or factors are typically applied in drawing conclusions or making forecasts or projections set out in forward-looking information. Those assumptions and factors are based on information currently available to the Company including information obtained by the Company from third-party industry analysts and other third-party sources. Actual results or outcomes may differ materially from those predicted by such statements or disclosures. While the Company does not know what impact any of those differences may have, its business, results of operations, financial condition and its credit stability may be materially adversely affected.

The Company has discussed, in Section D. – Key Market Drivers and in Section E. - Key Risks and Uncertainties of its MD&A for the year ended December 31, 2016, the significant market drivers and risk factors that affect its business and could cause actual results to differ materially from the forward-looking information disclosed herein. These factors remain substantially unchanged as of the date hereof. The Company cautions the reader that these factors are not exhaustive. The risk factors that could lead to differences in business results and which could cause actual results to differ materially from the forward-looking information disclosed herein include, without limitation, legislative and regulatory developments that may affect costs, revenues, the speed and degree of competition entering the market, global capital markets activity, timing and extent of changes in prevailing interest rates, inflation levels and general economic conditions in geographic areas where the Company operates, results of financing efforts, changes in counterparty risk and the impact of accounting standards issued by Canadian standard setters.

The Company is not obligated to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable laws. Because of the risks, uncertainties and assumptions contained herein, prospective investors should not place undue reliance on forward-looking statements or disclosures. The foregoing statements expressly qualify any forward-looking information contained herein.

## **A. Purpose of the Company's MD&A**

The purpose of this MD&A is to provide a narrative explanation, through the eyes of management, to assist the reader in understanding the Company's performance for the three and nine months ended September 30, 2017, the Company's financial condition as at September 30, 2017 and its future prospects.

## **B. Highlights**

2017 has been a tough year to date as the growth in infrastructure sales has still not been sufficient to offset the 98% decline in sales related to oil and gas construction sales. This decline in the oil and gas construction market was anticipated, but, not to the extent that has occurred. The good news is that infrastructure sales have grown by 66%, as compared to the same period in 2016, and these infrastructure sales are expected to replace all of the lost oil and gas construction sales in 2018, thus returning the Company to profitability, with continued upside potential.

### Third quarter highlights

- Infrastructure sales were up 100%, but this was offset by a decline in oil and gas sales resulting in a slight decrease in sales;
- Gross Margin Percentage on sales was up to 20.3% from 6% in the previous year;
- Sales Pipeline, as it relates to infrastructure sales, continues to grow;
- CEMATRIX continues to invest in two significant research projects, one related to MSE Panel backfill and the other related to Canadian road construction;
- A new web site was released October 25, 2017, highlighting why CEMATRIX is the premier supplier in North America; and
- Management, with the assistance of BDC Consulting, completed a strategic review of CEMATRIX. This work confirmed that there is a large growing cellular concrete market in Canada and the United States and that CEMATRIX is the leader in the Canadian market; this work also highlighted the need for more salesman on the ground to realize on this growing opportunity and this will be part of the CEMATRIX plan for 2018 and beyond.

### Year to date highlights

- Sales were down by 15% due to minimal oil and gas sales, but comprehensive loss was down by 26.7% due to cost control and lower non-cash stock based compensation expense;
- Infrastructure sales were up by 66% but this was not sufficient yet to offset the 98.2% decline in higher margin oil and gas sales;
- The Sales Pipeline for North America remains above \$100 million and continues to grow; and
- The new Lafarge agreements have not resulted in any significant new sales for CEMATRIX; both companies continue to evaluate the results to date and are working to enhance the program covered in both the joint marketing and regional expansion agreements.

### *Report on Major Initiatives*

#### *Growth in Sales Pipeline:*

The Company's Sales Pipeline continues to grow, but realizing on that pipeline, which now represents mainly infrastructure type projects, is taking longer than anticipated. Even though the Sales Pipeline is above \$100 million, CEMATRIX is still in the early market stage in the development of the infrastructure market so its cellular concrete is not yet the product of choice on certain projects even though CEMATRIX has knowledge that it is a superior and more cost effective solution to the alternative. Management believes that this trend will start to change in CEMATRIX's favour in the next few years.

#### *Agreements with Lafarge:*

The Company is working closely with Lafarge to develop opportunities under a joint marketing agreement. A number of potential projects have been identified by both parties and work continues to turn these into contracted sales but nothing significant has materialized as of this date. As expected this process will take

some time to get fully in place. Both parties continue to evaluate the results to date and make plans to make the program more effective in the realization of the sales of cellular concrete.

The Company has moved a wet mix unit, together with supporting equipment and supplies, to the region that Lafarge and CEMATRIX identified as the first opportunity under the regional cellular concrete development program. Lafarge staff at this location have been trained on the various CEMATRIX cellular concrete applications. Unfortunately, there have not been any significant new projects year to date. Both Lafarge and CEMATRIX are reviewing the sales process to improve the generation of new opportunities. Both parties continue to consider the timing and location of further regional expansions in Canada.

*Research Projects:*

The testing related to the expanded use of CEMATRIX cellular concrete as an approved light weight fill material for mechanically stabilized earth (“MSE”) panel construction projects is almost completed. The test results on certain of the properties of CEMATRIX cellular concrete have been completed with better than expected results. The final phase of the testing will be completed before the end of the year. The MSE panel market is significant in Canada and the U.S. as often, as part of this process, a light weight material is required to be placed behind the panels. CEMATRIX cellular concrete is well suited for these applications. The total estimated cost of this program, which is forecasted to be completed by the end of 2017, has been reduced to approximately \$240,000, of which the National Research Council will fund approximately \$90,000 through their industrial research assistance program.

The research with the University of Waterloo’s civil engineering department has been delayed until 2018 due to difficulty in finding a suitable test location. This project will involve the University of Waterloo, CEMATRIX and the Federal Government at a test location near Waterloo, Ontario. The request for a federal grant by the University of Waterloo to cover some of their costs has been approved. The project will involve pouring CEMATRIX cellular concrete for road bases with pavement structures at different densities to be monitored over three years. The purpose is to develop road bases that will last longer, as well as monitoring the effect on utilities buried beneath the road systems. Positive results from this study will lead to CEMATRIX cellular concrete to be specified into road construction projects in Ontario and other provinces. CEMATRIX’s cost of the three-year program will be approximately \$270,000 spread over three years.

### C. Results of Operations

*For the three months ending September 30, 2017 compared to the three months ending September 30, 2016*

	Three Months Ended September 30		
	2017	2016	Change
Revenue	\$ <u>2,429,421</u>	\$ <u>2,505,273</u>	\$ <u>(75,852)</u>
Gross margin	\$ <u>493,299</u>	\$ <u>148,962</u>	\$ <u>344,337</u>
Operating expenses	<u>(584,559)</u>	<u>(567,194)</u>	<u>(17,365)</u>
Operating loss	<u>(91,260)</u>	<u>(418,232)</u>	<u>326,972</u>
Non-cash stock based compensation	<u>(8,822)</u>	<u>(46,269)</u>	<u>37,447</u>
Finance costs	<u>(51,336)</u>	<u>(39,611)</u>	<u>(11,725)</u>
Other income	<u>24,232</u>	<u>12,406</u>	<u>11,826</u>
Loss before income taxes	<u>(127,186)</u>	<u>(491,706)</u>	<u>364,520</u>
Provision of deferred taxes	<u>19,446</u>	<u>102,586</u>	<u>(83,140)</u>
Loss attributable to the common shareholder	<u>(107,740)</u>	<u>(389,120)</u>	<u>281,380</u>
Unrealized foreign exchange gain (loss) on translation of foreign subsidiary	<u>2,430</u>	<u>(3,461)</u>	<u>5,891</u>
Comprehensive loss for period	\$ <u>(105,310)</u>	\$ <u>(392,581)</u>	\$ <u>287,271</u>
Fully diluted loss per common share for period	\$ <u>(0.003)</u>	\$ <u>(0.011)</u>	\$ <u>0.008</u>

	Three Months Ended September 30		
	2017	2016	Change
Revenue			
Infrastructure			
Western Canada	\$ <u>1,152,765</u>	\$ <u>169,977</u>	\$ <u>982,788</u>
Eastern Canada	<u>1,276,656</u>	<u>1,044,113</u>	<u>232,543</u>
United States	<u>-</u>	<u>-</u>	<u>-</u>
	<u>2,429,421</u>	<u>1,214,090</u>	<u>1,215,331</u>
Western Canada Oil and Gas	<u>-</u>	<u>1,291,183</u>	<u>(1,291,183)</u>
	\$ <u>2,429,421</u>	\$ <u>2,505,273</u>	\$ <u>(75,852)</u>

The revenue was lower by 3% or \$75,852. Sales volumes are comparable year over year but the average selling price was down 3% due to the shift to lower priced infrastructure sales. Infrastructure sales were strong with an increase of \$1,215,331, or 100%. This market is where the Company's future sales growth is focused. There were no projects in the United States ("U.S.") in 2017 or in the comparative period in 2016. There were no projects in the oil and gas sector in 2017 as this sector is still recovering from depressed oil and gas prices. In 2016 one of the large oil and gas projects in Alberta continued through until the fall of 2016.

The Gross Margin on sales was higher by \$344,337, or 231.2% due to the improvement in the Gross Margin Percentage achieved of 20.3% compared to 6% in 2016. This improvement was mainly due to the following items:

- In the comparative period in 2016 an unanticipated charge of \$140,000 was recorded related to cost adjustments to a project completed in June 2016
- In the comparative period of 2016 the Company incurred lower margins on an oil and gas project where the Company had switched production methods from lower cost dry mix to higher cost wet mix production to facilitate safe production of lower daily volumes in confined areas;
- Lower mobilization costs due to fewer project requirements in 2017; and

- Lower depreciation as a result of some property and equipment components reaching their full depreciated values.

Operating Expenses were higher by \$17,365, or 3.1% due to the aggregate of the following:

- Salaries and benefits were up \$29,600 – a temporary 10%-20% salary reduction for salaried employees and management for the first half of 2017 is being repaid over the second half of the year;
- In 2017 consulting costs of \$12,500 were incurred; there was no similar costs in 2016;
- Computer and computer system costs were up \$7,000 related to the implementation of a new sales and project management system;
- Business development costs were down \$25,600 due to cost constraints;
- Salaries of \$4,216, within Operating Expenses, were capitalized on research projects in 2017; there was no similar program in 2016; and
- Other costs were down by \$1,919 due mainly to cost constraints introduced in 2017.

Non-cash stock based compensation was down by \$37,447. Under IFRS rules, the associated non-cash stock based compensation related to stock options has to be expensed based on the vesting privileges of the particular option grants.

Finance costs were up \$11,725, or 29.6%, mainly due to interest on new BDC loans put in place in late 2016 and early 2017;

Other income was up \$11,826. In 2017 income of \$23,700 was reported from the equipment lease agreement put in place in February 2017 with Lafarge for the regional development of cellular concrete and Ready Mix markets. The first location was started in May 2017. Foreign exchange gains were \$11,874 lower in 2017.

Deferred income taxes recovery was lower by \$83,140 due to the improved results of the Canadian operations in comparison to the same period in 2016.

In 2017 there was an unrealized foreign exchange gain on translation of foreign subsidiary of \$2,430 as compared with a loss of \$3,461 in 2017. The variability period over period is due to changes in the foreign exchange rate of the U.S. dollar vs. the Canadian dollar, which has weakened in 2017, and changes in the levels of the assets, liabilities, revenues and expenses of the U.S. subsidiary between the two periods.

The total comprehensive loss was lower by \$287,271. This was principally due to higher Gross Margin on sales, lower non-cash stock based compensation expense and higher other income as partially offset by higher operating costs and interest expense.

***For the nine months ending September 30, 2017 compared to the nine months ending September 30, 2016***

	<b>Nine Months Ended September 30</b>		
	<b>2017</b>	<b>2016</b>	<b>Change</b>
Revenue	\$ <u>7,165,122</u>	\$ <u>8,431,034</u>	\$ <u>(1,265,912)</u>
Gross margin	\$ <u>1,175,153</u>	\$ <u>1,371,785</u>	\$ <u>(196,632)</u>
Operating expenses	<u>(1,616,709)</u>	<u>(1,772,243)</u>	<u>155,534</u>
Operating income (loss)	<u>(441,556)</u>	<u>(400,458)</u>	<u>(41,098)</u>
Non-cash stock based compensation	<u>12,271</u>	<u>(109,589)</u>	<u>121,860</u>
Finance costs	<u>(155,763)</u>	<u>(158,900)</u>	<u>3,137</u>
Other income	<u>43,048</u>	<u>51,483</u>	<u>(8,435)</u>
Income (loss) before income taxes	<u>(542,000)</u>	<u>(617,464)</u>	<u>75,464</u>
Provision of deferred taxes	<u>132,203</u>	<u>87,586</u>	<u>44,617</u>
Net income (loss)			
attributable to the common shareholder	<u>(409,797)</u>	<u>(529,878)</u>	<u>120,081</u>
Unrealized foreign exchange loss on translation of foreign subsidiary	<u>(2,807)</u>	<u>(33,309)</u>	<u>30,502</u>
Comprehensive income (loss) for period	\$ <u><u>(412,604)</u></u>	\$ <u><u>(563,187)</u></u>	\$ <u><u>150,583</u></u>
Fully diluted income (loss) per common share for period	\$ <u><u>(0.012)</u></u>	\$ <u><u>(0.015)</u></u>	\$ <u><u>0.003</u></u>

	<b>Nine Months Ended September 30</b>		
	<b>2017</b>	<b>2016</b>	<b>Change</b>
Revenue			
Infrastructure			
Western Canada	\$ <u>3,642,127</u>	\$ <u>1,112,403</u>	\$ <u>2,529,724</u>
Eastern Canada	<u>3,447,521</u>	<u>3,157,996</u>	<u>289,525</u>
United States	<u>-</u>	<u>-</u>	<u>-</u>
	<u>7,089,648</u>	<u>4,270,399</u>	<u>2,819,249</u>
Western Canada Oil and Gas	<u>75,474</u>	<u>4,160,635</u>	<u>(4,085,161)</u>
	\$ <u><u>7,165,122</u></u>	\$ <u><u>8,431,034</u></u>	\$ <u><u>(1,265,912)</u></u>

The revenue was lower by \$1,265,912, or 15%. Although volumes are up 2.2% the average selling price has declined by 16.9% due the shift in sales to lower priced infrastructure work from the higher priced oil and gas projects. Infrastructure sales were up \$2,819,249, or 66%, with higher sales in Western Canada due to more projects as compared to the same period in 2016; Eastern Canada sales were also up. There were no projects in the U.S. in 2017 or in the comparative period in 2016. Oil and gas sector sales were down \$4,085,161, or 98.2%, as a result of the decline in oil sands and refinery construction due to the continued depressed oil and gas prices. The price has recovered slightly, but not enough to generate any significant sales from this sector in the short term. The Company was fortunate to benefit from two large oil sector projects in Alberta in 2016. These projects generated sales of \$3,779,187 in the same period in 2016.

The Gross Margin on sales decreased by \$196,632 or 14.3%, due mainly to the lower sales level. The Gross Margin Percentage achieved was comparable year over year at 16.4% in 2017 and 16.3% in 2016. The decline in Gross Margin dollars was mainly due to the following items:

- In 2017 the Company took reduced margins for the benefit of both parties on the completion of a project in the first regional expansion territory in the Lafarge/CEMATRIX arrangement;



- In the comparative period of 2016 the Company incurred lower margins on an oil and gas project where the Company had switched production methods from lower cost dry mix to higher cost wet mix production to facilitate safe production of lower daily volumes in confined areas;
- In the comparative period in 2016 an unanticipated charge of \$140,000 was recorded related to cost adjustments to a project completed in June 2016;
- Lower labour and mobilization costs – in 2016 these costs were high due to the two large oil and gas projects in that year which required additional staff and high site mobilization costs;
- Higher fixed costs due mainly to a severance payment made to a dismissed employee in 2017; and
- Lower depreciation as a result of some property and equipment components reaching their full depreciated values.

Operating Expenses were lower by \$155,534, or 8.8%, due to the aggregate of the following:

- Salaries and benefits were down \$53,700 - a temporary 10%-20% salary reduction for salaried employees and management for the first half of 2017 is being repaid over the second half of the year;
- Business development costs were down \$21,200 due to cost constraints;
- Salaries of \$20,800, within Operating Expenses, were capitalized on research projects in 2017; there was no similar program in 2016;
- Commissions on sales were down \$7,200 due to lower sales;
- Costs incurred in 2016 to put in place the new demand operating loan with the Canadian Western bank and the new BDC working capital loan were \$26,000; there was no comparable costs in 2017; and
- Recruitment costs of \$16,250 were incurred in 2016 to hire additional operating staff; there were no similar costs in 2017.
- Consulting costs of \$25,000 were incurred in 2017; there was no similar costs in 2016;
- Computer and computer system costs were up \$13,500 related to the implementation of a new sales and project management system; and
- Other costs were down by \$48,884 due mainly to cost constraints introduced in 2017.

Non-cash stock based compensation was down by \$121,860. In 2017, 250,000 employee share options were forfeited by an employee who left the Company. None of the options had vested at the time the employee left the Company and as a result the non-cash stock based compensation previously recorded in the amount of \$58,245 was reversed to income. For the remaining options, under IFRS rules, the associated non-cash stock based compensation related to stock options has to be expensed based on the vesting privileges of the particular option grants.

Finance costs were down \$3,137, or 2%, mainly due to the interest incurred in 2016 and not in 2017 on the Tallinn financings (repaid in April 2016) as partially offset by interest on the new BDC loans put in place in late 2016 and early 2017;

Other income was down \$8,435. In 2017 income of \$39,500 was reported from the equipment lease agreement put in place in February 2017 with Lafarge for the regional development of cellular concrete and Ready Mix markets. The first location was started in May 2017. The gain on the sale of equipment was down \$18,793 in comparison to 2017 and foreign exchange gains were \$29,142 lower in 2017.

Deferred income taxes recovery was up by \$44,617 due to lower results of the Canadian operations in comparison to the same period in 2016.

Unrealized foreign exchange loss on translation of foreign subsidiary was lower by \$30,502. The variability period over period is due to changes in the foreign exchange rate of the U.S. dollar vs. the Canadian dollar, which has weakened in 2017, and changes in the levels of the assets, liabilities, revenues and expenses of the U.S. subsidiary between the two periods.

The total comprehensive loss was lower by \$150,583. This was principally due to lower operating expenses and lower non-cash stock based compensation expense as partially offset by lower gross margins.

#### D. Selected Quarterly Financial Information

Due to the seasonal nature of the Company's business, which typically follows the construction season in Canada, a significant portion of the Company's sales occur between the latter part of the three months ended June 30 and the first half of the three months ended December 31, on an annual basis. In both 2017 and 2016 the Company benefitted from winter projects carried over from the previous years. The Company continues pursuing other markets where seasonality is less of an issue. This seasonality is reflected in the quarterly results summarized in the below table:

Quarters Ended	Revenues \$	Comprehensive Income (Loss) \$	Income (Loss)	
			Per Share Basic \$	Per Share Diluted \$
<b>2017 Year</b>				
March 31	2,527,471	(51,859)	(0.002)	(0.002)
June 30	2,208,230	(255,435)	(0.007)	(0.007)
September 30	2,429,421	(105,310)	(0.003)	(0.003)
	<u>7,165,122</u>	<u>(412,604)</u>	<u>(0.012)</u>	<u>(0.012)</u>
<b>2016 Year</b>				
March 31	3,170,689	(22,487)	-	-
June 30	2,755,072	(148,119)	(0.004)	(0.004)
September 30	2,505,273	(392,581)	(0.011)	(0.011)
December 31	1,167,827	(534,405)	(0.016)	(0.015)
Total for year	<u>9,598,861</u>	<u>(1,097,592)</u>	<u>(0.031)</u>	<u>(0.031)</u>

Note 1: Quarterly income (loss) per share is calculated on a standalone quarterly basis and accordingly the sum of the quarterly amounts may not equal the total for the year

#### E. Consolidated Statement of Financial Position

	September 30 2017	December 31 2016	Change
Total current assets	\$ 3,020,931	\$ 2,865,927	\$ 155,004
Total non current assets	<u>4,787,058</u>	<u>4,709,905</u>	<u>77,153</u>
Total Assets	\$ <u>7,807,989</u>	\$ <u>7,575,832</u>	\$ <u>232,157</u>
Current liabilities	\$ 1,444,040	\$ 879,700	\$ 564,340
Non current liabilities	<u>2,216,599</u>	<u>2,123,907</u>	<u>92,692</u>
Total liabilities	\$ <u>3,660,639</u>	\$ <u>3,003,607</u>	\$ <u>657,032</u>
Shareholders' equity	\$ <u>4,147,350</u>	\$ <u>4,572,225</u>	\$ <u>(424,875)</u>

Total current assets increased by \$155,004. This increase in aggregate is summarized below:

- Cash and cash equivalents were down \$41,593 (See the discussion in Section F - Consolidated Statement of Cash Flows);
- Trade and other receivables were up by \$175,432 as a result of the higher sales in the third quarter of 2017 in comparison to the fourth quarter of 2016 combined with timing differences in the collection of trade receivables;

- Inventory was down \$11,025 due to the normal usage in the production process as offset by foaming agent purchases to bring this inventory back to an appropriate level to support sales;
- Prepaids and deposits were up \$28,320; mainly due to timing differences on certain items in 2017 as compared to the 2016 year end balances; and
- Current portion of share acquisition loans was up \$3,870 due to the accretion of the fair value adjustment.

Total non current assets increased by \$77,153. This increase in aggregate is summarized below:

- Property and equipment was down \$137,194 - depreciation expense for the nine months ended September 30, 2017 was \$351,830; this was partially offset by additions to property and equipment of \$199,271 and additions of \$15,365 for equipment under finance leases.
- Intangibles were up \$82,144; spending on research projects was \$119,430 (including \$24,089 of capitalized labour) was partially offset by funding received from government grants of \$37,286; no amortization is recorded on the remaining trademarks and technology as the Company views these as having an indefinite life; and
- The deferred tax asset increased by \$132,203 as a result of recording a recovery of deferred tax on Canadian losses incurred in the nine months ended September 30, 2017.

Total current liabilities increased by \$564,340. This increase in aggregate is summarized below:

- Bank overdraft was up by \$66,940 (note: this represents checks written but not yet applied against the Company's bank account or its demand operating loan).
- Trade and other payables were up \$487,595 principally due to increased business activity in the three month ended September 30, 2017 as compared to the three months ended December 31, 2016;
- Current portion of long term debt was up by \$22,720 due to new BDC loans in 2017; the repayments of \$150,231 were offset by the classification from the long term portion of \$172,851. Repayments for the BDC loans run from July to December; and
- Current portion of finance lease obligations was down \$12,915 due to scheduled repayments of \$43,192 as partially offset by the reclassification from the long term portion of \$30,277.

Total non current liabilities increased by \$92,692. This increase in aggregate is summarized below:

- Long term debt was up \$107,604 due to draws of \$280,555 on the BDC equipment loan and a new BDC loan put in place in 2017 as partially offset by the reclassification to the current portion of \$172,951; and
- Finance lease obligations were down \$14,912 due to new finance lease obligations of \$15,365 as offset by the reclassification to current portion in the nine months ended September 30, 2017 of \$30,277.

Shareholders' Equity decreased by \$424,875. This increase in aggregate is summarized below:

- Contributed surplus decreased by \$12,271; in 2017, 250,000 employee share options were forfeited by an employee who left the Company. None of the options had vested at the time the employee left the Company and as a result the non-cash stock based compensation previously recorded in the amount of \$58,245 was reversed to income resulting in the Company recording non-cash based compensation income of \$12,271 in the nine months ended September 30, 2017.

- Accumulated other comprehensive loss increased by \$2,807 due to the unrealized foreign exchange loss on translation of the Company's U.S. subsidiary in the nine months ended September 30, 2017; and
- The Deficit increased by \$409,797 due to the loss to common shareholders in the period.

See the Consolidated Statements of Shareholders' Equity included in the Interim Consolidated Financial Statements at September 30, 2017.

#### F. Consolidated Statement of Cash Flows

##### *For the three months ending September 30, 2017 compared to the three months ending September 30, 2016*

The cash position of the Company at September 30, 2017 was a negative \$57,400 (comprised of cash and cash equivalents of \$42,741 and a bank overdraft of \$100,141) compared to a cash position of \$491,677 (comprised of cash and cash equivalents) at September 30, 2016.

The change in the cash position in the three months ending September 30, 2017 and 2016 was a decrease of \$165,844 in 2017 as compared to an increase of \$261,555 in the same period of 2016. This change is outlined in the below:

	<b>Three Months Ended September 30</b>		
	<b>2017</b>	2016	Change
Cash generated from operating activities	\$ 12,212	\$ 155,580	\$ (143,368)
Cash used in investing activities	(18,586)	(192,122)	173,536
Cash generated from (used in) financing activities	(161,900)	301,558	(463,458)
Foreign exchange effect on cash	2,430	(3,461)	5,891
<b>Increase (decrease) in cash</b>	<b>(165,844)</b>	261,555	(427,399)
Cash, at beginning of period	108,444	230,122	(121,678)
<b>Cash, at end of period</b>	<b>\$ (57,400)</b>	\$ 491,677	\$ (549,077)
<b>Cash, at end of period</b>			
Cash and cash equivalents	\$ 42,741	\$ 491,677	\$ (448,936)
Bank overdraft	(100,141)	-	(100,141)
	<b>\$ (57,400)</b>	\$ 491,677	\$ (549,077)

- Cash generated from operating activities decreased by \$143,368.
  - The negative cash flow, before non cash working capital adjustments, decreased by \$312,154. The improvement was due to a decrease in the net loss before taxes of \$364,520 as partially offset by lower addback of non-cash items of \$52,366, due primarily to the lower non-cash stock based compensation and lower depreciation; and
  - The net positive change in non-cash working capital items was down \$455,522 due primarily to the level of trade receivables generated in the respective periods and the timing of their collection.
- Cash used in investing activities decreased by \$173,536.
  - Plant and equipment purchases were down \$172,336;
  - Intangible expenditures related to research projects were down \$1,200; and
- Cash from financing activities decreased by \$463,458.

- In 2017 the Company used \$161,900 in financing activities; scheduled repayments on the BDC loans were \$150,231, scheduled repayments of \$14,525 were made on finance lease obligations and \$2,856 was received from government grants on its research projects; and

- In 2016 the Company generated \$301,558 from financing activities; it borrowed \$460,064 on its bank operating loan and made scheduled repayments of \$143,331 and \$15,175, respectively on the BDC Financing and on finance lease obligations.

***For the nine months ending September 30, 2017 compared to the nine months ending September 30, 2016***

The cash position of the Company at September 30, 2017 was a negative \$57,400 (comprised of cash and cash equivalents of \$42,741 and a bank overdraft of \$100,141) compared to a cash position of \$491,677 (comprised of cash and cash equivalents) at September 30, 2016.

The change in the cash position in the nine months ending September 30, 2017 and 2016 was a decrease of \$108,533 in 2017 as compared to a decrease of \$959,108 in the same period of 2016. This change is outlined below:

	<b>Nine Months Ended September 30</b>		
	<b>2017</b>	<b>2016</b>	<b>Change</b>
Cash generated from operating activities	\$ 86,257	\$ 539,988	\$ (453,731)
Cash used in investing activities	<b>(316,401)</b>	(322,480)	6,079
Cash generated from (used in) financing activities	<b>124,418</b>	(1,143,307)	1,267,725
Foreign exchange effect on cash	<b>(2,807)</b>	(33,309)	30,502
<b>Decrease in cash</b>	<b>(108,533)</b>	(959,108)	850,575
Cash, at beginning of period	<b>51,133</b>	1,450,785	(1,399,652)
<b>Cash, at end of period</b>	<b>\$ (57,400)</b>	\$ 491,677	\$ (549,077)
<b>Cash, at end of period</b>			
Cash and cash equivalents	\$ 42,741	\$ 491,677	\$ (448,936)
Bank overdraft	<b>(100,141)</b>	-	(100,141)
	<b>\$ (57,400)</b>	\$ 491,677	\$ (549,077)

- Cash generated from operating activities decreased by \$453,731.

- The negative cash flow, before non-cash working capital adjustments, increased by \$29,694. The increase was mainly due to the reduction in net loss before taxes of \$75,464 which was more than offset by a lower addback of non-cash items of \$105,158, due primarily to lower non-cash stock based compensation and depreciation; and

- The net positive change in non-cash working capital items decreased by \$424,037 due primarily to the level of trade receivables generated in the respective periods and the timing of their collection.

- Cash used in investing activities decreased by \$6,079.

- Plant and equipment purchases were down \$119,145;

- The cash invested in the term deposit was lower by \$10,000; the term deposit is required as security for the Company's corporate credit cards, in 2016 an addition \$10,000 was added to secure additional credit cards issued to new staff; there was no additions in 2017;

- Intangible expenditures related to research projects were up \$104,015; and

- Proceeds received on the sale of equipment were down \$19,051.

- Cash generated from (used in) financing activities changed by \$1,267,725.

- In 2017 the Company generated \$124,418 from financing activities: new BDC debt provided \$280,555 to finance the completion of production equipment and acquisition of a new service vehicle to support the agreement with Lafarge for the regional expansion of cellular concrete and Ready Mix sales and to fund the first year cost of the BDC program to assist the Company in establishing its growth strategy; proceeds of \$37,286 were received from government grants on its research projects and scheduled repayments of \$150,231 and \$43,192 were made on the BDC loans and on finance lease obligations, respectively; and

- In 2016 the Company used \$1,143,307 in financing activities; the bank operating was used to finance \$460,064 of working capital, cash collected on trade receivables that had been factored at December 31, 2015 was used to repay the factoring liability of \$703,462; the \$750,000 mezzanine loan was repaid and scheduled repayments of \$143,331 and \$51,578, respectively, on BDC Financing and finance lease obligations were made; cash was received from the issue of common shares for \$45,000 on the exercise of stock options by The Howard Group, the Company's investor relations firm.

## **G. Liquidity, Capital Resources and Commitments**

### *Liquidity*

The Company's liquidity, including obtaining cash resources to finance capital spending to increase its production capacity to meet forecasted growth, is dependent on continuing to generate sales, profits, cash flow from operations, maintaining a facility to finance working capital and accessing capital debt facilities through loans or lease financing.

At September 30, 2017, the Company had Net Working Capital of \$1,904,279, down from \$2,199,147 at December 31, 2016.

For the nine months ended September 30, 2017, the Company reported a loss of \$544,271, before taxes and non-cash stock based compensation, negative cash from operations of \$208,611, before the non-cash working capital adjustment, and negative EBITDA of \$46,679.

As of this date, the Company has signed contracts on hand for \$9.9 million, of which approximately \$1.9 million may not start until early 2018 and \$7.2 million is completed as of September 30, 2017. There are a number of other contracts for 2017 and winter 2018 work that are in still in process of finalization. Management believes that it has sufficient cash flow to manage its way to what is expected to be a stronger sales year in 2018 from the growing infrastructure markets in Canada and the United States.

### *Capital resources*

Capital additions to build new productive capacity in the current year will come from the funds generated from operations and the BDC loan 4, which has \$319,445 that can be drawn down until October 2018. The Company has curtailed any major capital spending.

Building additional productive capacity in future years is dependent on the Company generating the required funds from operations or new debt or equity financing. There is no certainty that additional debt or equity financing will be available to the Company.

The Company defines its capital as the long term debt, the finance lease obligations and shareholders' equity. The current objective of the Company is to manage its capital through growth in earnings and to re-invest the earnings generated to facilitate the continued growth in the Company, in order to provide an appropriate rate of return to shareholders in relation to the risks underlying the Company's assets. The consolidated capital of the Company, as outlined in Note 22 - Capital management to the Interim Consolidated Financial Statements, was \$6,735,276 at September 30, 2017 as compared to \$7,057,654 at December 31, 2016 (see Section E. Consolidated Statements of Financial Position for details).

### *Commitments*

The following is a summary of the Company's lease and debt obligations and commitments for the next five years from September 30, 2017.

Debt Category	2017/18	2018/19	2019/20	2020/21	2021/22
	\$	\$	\$	\$	\$
Finance lease obligations <sup>(1)</sup>	77,108	114,260	43,248	6,957	3,378
BDC Financing <sup>(2) (3)</sup>	307,182	390,782	390,462	153,472	83,280
Secured Debenture <sup>(2)</sup>	-	1,000,000	-	-	-
Operating leases	313,098	277,168	69,292	-	-

(1) Includes principal and interest

(2) Principal only

(3) Based on BDC loans drawn down as of September 30, 2017

(4) The Company's lease on its head office and shop facilities in Calgary expires December 31, 2019.

### **H. Off Balance Sheet Arrangements**

There were no off balance sheet arrangements at September 30, 2017 or December 31, 2016.

### **I. Transactions with Related Parties**

During the three and nine months ending September 30, 2017, the Company incurred legal fees from a firm which employs one of the directors of the Company in the amount of \$nil and \$17,864, respectively (\$27,447 and \$42,282, respectively for the same periods in 2016) of which \$nil was in trade payables as at September 30, 2017 (December 31, 2016 - \$nil).

There were no other significant related party transactions.

### **J. Critical Accounting Judgements, Estimates and Assumptions**

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the consolidated financial statements are described in Note 3 of the audited consolidated financial statements for the year ended December 31, 2016. There have been no changes since that date.

### **K. Changes in Accounting Policies including Initial Adoption**

The significant accounting policies of the Company are outlined in note 4 of the audited consolidated financial statements for the year ended December 31, 2016. There have been no changes.

#### *Future accounting pronouncements*

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or the IFRIC that are mandatory for accounting periods beginning on or after October 1, 2017 or later periods. The standards impacted that are applicable to the Company are as follows:

IFRS 9 Financial Instruments – On July 24, 2014, the IASB issued the final version of IFRS 9, "Financial Instruments" ("IFRS 9") to replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity

manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements; however, where the fair value option is applied to financial liabilities, the change in fair value resulting from an entity's own credit risk is recorded in OCI rather than net earnings, unless this creates an accounting mismatch. In addition, a new expected credit loss model for calculating impairment on financial assets replaces the incurred loss impairment model used in IAS39. The new model will result in more timely recognition of expected credit losses. IFRS 9 also includes a simplified hedge accounting model, aligning hedge accounting more closely with risk management. IFRS 9 is effective for years beginning on or after January 1, 2018. Early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period.

**IFRS 15 Revenue from Contracts With Customers** – On May 28, 2014, the IASB issued IFRS 15, “Revenue From Contracts With Customers” (“IFRS 15”) replacing International Accounting Standard 11, “Construction Contracts” (“IAS 11”), IAS 18, “Revenue” (“IAS 18”), and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. IFRS 15 is effective for years beginning on or after January 1, 2018.

The Company has determined the impact on its consolidated financial statements from the adoption of these future accounting pronouncements will not be material.

**IFRS 16 Leases** – In January 2016, the IASB issued IFRS 16, “Leases” (“IFRS 16”) replacing International Accounting Standard 17, “Leases” (“IAS 17”). IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, the customer (“lessee”) and the supplier (“lessor”). The standard provides revised guidance on identifying a lease and separating lease and non-lease components of a contract. It introduces a single accounting model for all leases and requires a lessee to recognize right-of-use assets and lease liabilities for 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. Lessor accounting for operating and finance leases will remain substantially unchanged. IFRS 16 is effective for years beginning on or after January 1, 2019.

The Company has not determined the impact on its consolidated financial statements from the adoption of the above future accounting pronouncements.

## **L. Financial Instruments**

The Company has not entered into any specialized financial agreements to minimize its investment risk, currency risk or commodity risk. For information on financial instruments refer to Note 4 (M) – Significant Accounting Policies – Non-derivative financial instruments in the audited consolidated financial statements at December 31, 2016 and Note 21 – Financial Instruments and risk management to the Interim Consolidated Financial Statements.

### ***Risk management***

The Company's activities are exposed to a variety of financial risks: interest rate risk, credit risk, liquidity risk and foreign exchange risk. The Company's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on the Company's financial performance. Risk management is carried out by financial management in conjunction with overall Company governance.

### ***Interest Rate Risk***

The BDC Financing, which had a balance of \$1,366,818 outstanding at September 30, 2017, and the demand operating loan, which had a balance of \$nil outstanding at September 30, 2017, are subject to floating rates. Based on this floating rate debt outstanding at September 30, 2017 a 1% increase/decrease in interest rates would result in a decrease/increase in the comprehensive income (loss) of approximately \$10,000.



**Credit Risk**

Financial instruments that subject the Company to credit risk consist primarily of trade receivables. The Company manages credit risk using credit approval and monitoring practices. At September 30, 2017, 8 customers accounted for approximately 91% of trade receivables (at December 31, 2016, 9 customers accounted for approximately 90% of trade receivables). (See Note 5 for details of credit policy and aging of outstanding trade receivables at September 30, 2017 and December 31, 2016).

**Liquidity Risk**

Liquidity risk management involves maintaining sufficient cash and cash equivalents and the availability of working capital financing.

The table below summarizes the maturity profile of the Corporation's financial liabilities at September 30, 2017 and December 31, 2016 based on contractual undiscounted payments.

	Less than 1 year	1 to 2 years	2 to 5 years	Total
<b>As at September 30, 2017</b>				
Bank overdraft	\$ 100,141	\$ -	\$ -	\$ 100,141
Trade and other payables	972,572			972,572
Long-term debt	307,182	1,390,781	668,855	2,366,818
Finance lease obligations	64,145	108,798	48,165	221,108
	<u>\$ 1,444,040</u>	<u>\$ 1,499,579</u>	<u>\$ 717,020</u>	<u>\$ 3,660,639</u>
	Less than 1 year	1 to 2 years	2 to 5 years	Total
<b>As at December 31, 2016</b>				
Bank overdraft	\$ 33,201	\$ -	\$ -	\$ 33,210
Trade and other payables	484,977	-	-	484,977
Long-term debt	284,462	1,284,142	667,890	2,236,494
Finance lease obligations	77,060	47,243	124,632	248,935
	<u>\$ 879,700</u>	<u>\$ 1,331,385</u>	<u>\$ 792,522</u>	<u>\$ 3,003,607</u>

**Foreign Exchange Risk**

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure relates to trade receivables, and the collection thereof, denominated in USD and the operations of its U.S. subsidiary which are predominantly in USD. The Company does not hedge these items as the timing of related transactions is not certain.

As at September 30, 2017 and December 31, 2016 the following balances were denominated in USD:

	2017	2016
Cash and cash equivalents	\$ 24,065	\$ 60,666
Trade and other receivables	\$ 32,934	\$ 39,672
Prepaid expenses and deposits	\$ 11,308	\$ 9,837
Trade and other payables	\$ 20,851	\$ 14,317

The Company's primary foreign exchange sensitivity is in relation to movements of the USD against the Canadian dollar. Based on the USD balances outstanding at September 30, 2017, a 5% increase/decrease of the USD against the Canadian dollar would result in an increase/decrease in total annual comprehensive loss of approximately \$2,900.

### M. Disclosure of Outstanding Share Data

As at September 30, 2017 and November 15, 2017, the following is a description of the outstanding equity securities and convertible securities previously issued by the Company:

	<b>Authorized</b>	<b>Outstanding as at September 30, 2017</b>	<b>Outstanding as at November 15, 2017</b>
Voting or equity securities issued and outstanding	Unlimited Common Shares	34,475,994 Common Shares	34,475,994 Common Shares
Securities convertible or exercisable into voting or equity securities - stock options	Stock options to acquire up to 10% of outstanding Common Shares	Stock options to acquire 3,275,000 Common Shares at an exercise price at between \$0.145-\$0.43	Stock options to acquire 3,275,000 Common Shares at an exercise price at between \$0.145-\$0.43

### N. Outlook

Management remains optimistic about the future of CEMATRIX. Although sales for the current year may decline from the previous year, sufficient sales are in place to carry the Company through to what is expected to be a busy 2018. Management expects that infrastructure sales will continue to grow significantly in 2018. Furthermore, opportunities in the oil and gas and U.S. construction markets are showing signs of increased activity. In 2018 CEMATRIX intends to focus more on the U.S. market in addition to the Canadian infrastructure market.

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**Form 51-102F1 - Management's Discussion & Analysis  
For the Three and Nine Months Ending September 30, 2017**

**Appendix A – Forward Looking Statements**

The forward-looking statements in the MD&A for the three and nine months ending September 30, 2017 are outlined below:

General

There are a number of statements in the MD&A which refer to “expect“, “anticipate“, “believes“, “expected sales growth or increase“, “forecast revenue growth“, “anticipated growth“, “may” and “forecasting“.

*The foregoing statements contains forward-looking statements which are based on sales forecasts prepared for 2017 and beyond; sales forecasts include work which is under contract for 2017, as well as probability adjusted forecasts for projects on which the Company has placed or will place bids in the coming years, where the probabilities applied to the sales forecast are based on management's assessment of the particular project based on historical experience and the stage the project is in the sales cycle. There are a number of risks that could affect these assumptions which include: contracted work is delayed; the failure of sales to materialize, because of project delays or cancelations or because CEMATRIX's cellular concrete is not specified into projects, management's assumptions in applying probabilities to the various projects in the sales forecast are incorrect, and product acceptance in new markets takes longer than anticipated resulting in reduced sales.*

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**Appendix B – Definitions**

**Sales Pipeline:**

The Company's sales pipeline is defined as the total forecasted dollar amount of those future projects that CEMATRIX has been contacted by engineering firms, or owners, or contractors for design assistance (which could include thermal modelling), as quote, or both. The sales pipeline does not include the dollar value of contracted sales; or the dollar value of sales, where volumes have not been determined by the designers; or the dollar value of sales that have been lost for various reasons, including that the proposed project has been cancelled, lost to an alternative product or lost to a competitor. The sales pipeline is updated when changes in the status of a project becomes known to CEMATRIX. The sales pipeline includes projects from the current and future years and grows with the continued acceptance of the product throughout the Company's market territory, which currently includes significant parts of Canada and parts of the U.S.

**Revenue:**

Total revenue of the Company that primarily consists of the production and placement of cellular concrete.

**Cost of Sales:**

Direct costs related to the production of cellular concrete, including materials and labour; direct and indirect variable costs related to the production of cellular concrete; and fixed costs related to the production of cellular concrete, including depreciation related to the equipment used in the production of cellular concrete.

**Gross Margin:**

The profit after cost of sales is deducted from revenue.

**Gross Margin Percentage:**

The percentage of the gross margin as a percentage of revenue.

**Operating Expenses:**

Represents costs not directly related to the production of cellular concrete, including general and administrative, sales and marketing and technology development.

**Operating Income:**

Income before non-cash stock based compensation, finance costs and other miscellaneous items and taxes.

**Unrealized Foreign Exchange Gain (Loss) on Translation of Foreign Subsidiary:**

The unrealized gain (loss) resulting from the translation of CEMATRIX's U.S. subsidiary into Canadian dollars. This foreign exchange gain or loss is recognized only when there is a return of capital from the U.S. subsidiary.

**Net Working Capital:**

The sum of trade and other receivables, inventory and prepaid expenses and deposits minus trade and other payables.

**Ready Mix**

This refers to pre-designed cement slurry which is delivered by a ready mix supplier.