

**CEMATRIX CORPORATION**  
**Management's Discussion and Analysis**  
*For Three and Six Months Ended June 30, 2018*

Date Completed: August 15, 2018

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

**Form 51-102F1 - Management's Discussion & Analysis  
For the Three and Six Months Ended June 30, 2018**

*The following is the management's discussion and analysis ("MD&A") of CEMATRIX Corporation ("CEMATRIX" or the "Company") for the three and six months ended June 30, 2018. This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company for the three and six months ended June 30, 2018 (the "Interim Condensed 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, 2017 and related notes thereto. The Interim Condensed 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 unless otherwise noted.*

*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 August 15, 2018 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 six months ended June 30, 2018. The Board of Directors of the Company has reviewed and approved the Interim Condensed Consolidated Financial Statements and MD&A on August 15, 2018.

**Index**

<b>Forward Looking Information</b>	<b>3</b>
<b>A. Purpose of the Company MD&amp;A</b>	<b>4</b>
<b>B. Mid-Year Review</b>	<b>4</b>
<b>C. Results of Operations</b>	<b>7</b>
<b>D. Selected Quarterly Financial Information</b>	<b>11</b>
<b>E. Consolidated Statement of Financial Position</b>	<b>11</b>
<b>F. Consolidated Statement of Cash Flows</b>	<b>13</b>
<b>G. Liquidity, Capital Resources and Commitments</b>	<b>15</b>
<b>H. Off Balance Sheet Arrangements</b>	<b>17</b>
<b>I. Transactions with Related Parties</b>	<b>17</b>
<b>J. Critical Accounting Judgments, Estimates and Assumptions</b>	<b>17</b>
<b>K. Changes in Accounting Policies including Initial Adoption</b>	<b>18</b>
<b>L. Financial Instruments</b>	<b>20</b>
<b>M. Disclosure of Outstanding Share Data</b>	<b>23</b>
<b>N. Outlook</b>	<b>24</b>
<b>Appendix A – Forward Looking Statements</b>	<b>25</b>
<b>Appendix B – Definitions</b>	<b>26</b>

## **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, 2017, 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 International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Reporting Interpretation Committee (“IFRIC”).

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 six months ended June 30, 2018, the Company's financial condition as at June 30, 2018 and its future prospects.

## **B. Mid-Year Review**

### **Financial Review**

Sales in the ground have been typical of years past, prior to the last couple of years, when there were some larger off-season projects to complete. Contracted sales and verbally awarded projects are up significantly to \$31.1 million, much of which are due to the acquisition, but sales in Canada have grown, as well. The results to date are off from last year because of \$918,118 of acquisition and incremental non cash costs, but the operating results are up as reflected in the margins earned and gross margin percentage were up even though sales were off slightly.

### **Appointment of New Chief Financial Officer**

The Company announced the appointment of Mr. James Chong to the position of Chief Financial Officer of CEMATRIX effective April 27, 2018. Mr. Bruce McNaught, former Chief Financial Officer of CEMATRIX, retired on June 30, 2018.

### **Acquisition of MixOnSite ("MOS")**

On May 31, 2018 (the 'Closing Date'), the Company executed ("the 'Acquisition') the share purchase agreement (the "Definitive Agreement") between the Company and Mr. Ed Weiner (the "Vendor"), for the acquisition of all of the issued and outstanding shares (the "MOS Shares") of MixOnSite USA, Inc. ("MOS").

Pursuant to the Definitive Agreement, the purchase price for the MOS Shares paid on the Closing Date to the Vendor by CEMATRIX was as follows:

- cash in the amount of \$2,000,000 US dollars ("USD") (the "Cash Purchase Price");
- secured convertible note (the "Convertible Note") issued by the Purchaser in the amount of \$2,500,000 USD;
- 3,343,421 common shares of CEMATRIX (the "CEMATRIX Shares") issued at a deemed price of \$0.19 per CEMATRIX Share;
- and earn-out payment (the "Earn-out") calculated on the operations of MOS for three years following closing of the Acquisition.

The aggregate consideration paid for the MOS Shares was \$5,000,000 USD, as well as payment of the Earn-out.

The cash payment on the Closing Date of \$2,000,000 USD consisted of \$200,000 USD, coming from a portion of the funds raised from the first tranche of the Company's Private Placement (see below) and \$1,800,000 USD came from an approved loan with the Business Development Bank of Canada ("the "BDC USD Loan") (see below).

The Convertible Note will pay interest to the holder at a rate of 8% per year, payable quarterly, for a period of three years. The Convertible Note will convert into 13,373,684 CEMATRIX Shares at the option of the holder, at any time, at \$0.2375 per CEMATRIX Share. CEMATRIX may repay the Convertible Note and may force the conversion of the Convertible Note upon 40 days' written notice after a period of 12 months, subject to an early payment and forced conversion penalties, as applicable.

The Earn-out will pay the Vendor 70% of the earnings before interest, income taxes, depreciation and amortization (“MOS EBITDA”) above \$500,000 USD for the first year after closing of the Acquisition and 65% of the MOS EBITDA above \$500,000 USD for the second and third years after the Closing Date.

In addition to the consideration payable pursuant to the Definitive Agreement, the Vendor was appointed a director of the Company and was engaged as a consultant for a period of three years as of the Closing Date. The Vendor received 150,000 stock options for his role as a director and 350,000 for his role as a consultant. The stock options are exercisable into common shares of the Company at an exercise price of \$0.20 per common share. These stock options are for a three year term and vest over three years as to one third at the end of each year.

MOS is incorporated under the laws of California, with a head office in Buffalo Grove, Illinois, U.S. MOS is a contractor in the same business as CEMATRIX specializing in low density concrete and offering complete installation services including technical mix design support and development for a wide variety of construction applications in the U.S.

MOS is a profitable growing supplier of cellular concrete in the U.S. CEMATRIX is already known as a leader in cellular concrete technologies in North America and the leading supplier of cellular concrete in Canada, so management of CEMATRIX believes the acquisition of MOS by CEMATRIX is poised to make CEMATRIX the foremost source of cellular concrete throughout North America. MOS’ sales have averaged approximately \$10,000,000 USD and EBITDA has averaged approximately \$1,300,000 USD over the past two years ended December 31, 2017. If CEMATRIX and MOS had been combined at the beginning of 2018, the combined contracted and verbally awarded projects at the time of the acquisition have been in excess of \$33.5 million, \$7 to \$8 million of which is scheduled or may carry over to 2019. Since CEMATRIX will only be recording 7 months of the MOS sales in its 2018 results, this will amount to approximately \$23 to \$25 million in CEMATRIX consolidated sales for 2018 and a \$7 to \$8 million carryover to 2019.

Besides the increased sales, profits and cash flows MOS brings to CEMATRIX, MOS owns certain technologies / capabilities that management believes can benefit CEMATRIX. In addition, the existing CEMATRIX technologies stand to make MOS a stronger cellular concrete provider in the U.S. MOS also owns three dry mix units, two wet mix units and ancillary equipment, which will increase CEMATRIX group’s seasonally adjusted production capacity to in excess of 1,000,000 cubic meters.

### **Private Placements**

On April 30, 2018 and June 25, 2018, the Company completed the first and second tranches of a non-brokered private placement for 3,481,130 units (each, a “Unit”) at a price of \$0.20 per Unit for gross proceeds of \$696,226 (the “Private Placement”). Each Unit is comprised of one common share and one half warrant (each a “Warrant”). Each full warrant is exercisable into one common share for a period of two years at an exercise price of \$0.35 per common share.

The Company paid a finder’s fee and finder’s warrants of 6% of the gross proceeds to qualified non-related parties that participated. The fees amounted to \$8,100 and the Company issued 20,250 finder’s warrants that entitle the holder thereof to acquire one common share for \$0.35 until the expiry date of April 30, 2020. In addition to this, costs of \$3,482 were incurred in conjunction with the offering.

The net proceeds of the first tranche of the Private Placement were used for general working and growth capital and to finance a portion of the purchase price for the Acquisition. The common shares issued were subject to a four month hold period from the date of closing.

This Private Placement closed on June 25, 2018, without the Company meeting its initial goal of \$2,000,000 of gross proceeds to support the acquisition and continued growth of the Company.

The Company has since press released a new non-brokered private placement to raise up to \$1,650,000 at \$0.20 per share under the same terms as the above-noted private placement to support the forecasted growth of the Company in Canada and the United States. 1,650,000 Units are offered; and each Unit is

comprised one common share and one half warrant. Each full warrant is exercisable into one common share for a period of two years at an exercise price of \$0.35 per common share. The common shares issued will be subject to a four month hold period from the date of closing.

### **BDC USD Loan**

In May 2018 the Company entered into a BDC USD Loan agreement. The proceeds of \$1,800,000 USD from this financing were used to fund a portion of the purchase price for the Acquisition.

### **Report on Major Initiatives**

#### Development and Implementation of a Strategic Growth Strategy

In 2017 the Company worked with the Business Development Bank of Canada's consulting group ("BDC Consulting") using their Growth Driver Program to develop a revitalized strategic growth strategy for the Company (the "Growth Strategy"). Three key items identified in this phase of the strategy work were: first BDC Consulting verified through third party information that there is a significant growing market for cellular concrete in Canada and the U.S.; second that CEMATRIX's major challenge is having more sales people in place to take advantage of this growing market opportunity; and third that CEMATRIX should work closely with Lafarge's to help implement the Growth Strategy, including amongst other things increased sales and marketing support for the development of cellular concrete markets across Canada.

The first phase resulted in a Growth Strategy to achieve \$20 million in Canadian sales by 2020 and will involve:

- Scaling sales of cellular concrete by establishing a strategic focus on selected infrastructure markets, locations where CEMATRIX cellular concrete hold an advantage over other competing products (i.e. regions with weak and unstable soil), the use of the right CEMATRIX products and applications and targeting sales regions/segments that are attractive to Lafarge and/or look at other options like acquisitions;
- Building an internal predictive sales infrastructure that would include additional sales staff;
- Eliminating non-core sales activities;
- Investing in sales support systems (now in place);
- Aligning the sales incentive program with the sales strategy; and
- Integrating the strategy into succession and physical locations.

Phase two of the Growth Strategy program with the BDC was put on hold pending the completion of the acquisition, but now that the acquisition is complete, the Company will be working with BDC Consulting in the latter half of 2018 to develop comprehensive plans for implementing the Growth Strategy and to establish metrics to measure the success of the program. BDC consulting will provide regular advisory support throughout the two-year implementation period as well as provide a series of leadership and growth management courses.

#### Introduction of New 400 kg/m<sup>3</sup> Density Cellular Concrete

CEMATRIX continues to lead the cellular concrete industry, with the introduction of its new lower density Cellular Concrete. The new standard is a significant change from its original leading industry standard of 475 kg/m<sup>3</sup>. See "Comparison to Industry Standards" on the Company's website. The new 400 kg/m<sup>3</sup> product provides superior load reduction, as well as insulating properties for many geotechnical applications. Additionally, higher production rates, and lower raw material usage, can provide potential cost savings, when compared to "typical" higher density cellular concrete product. The 400 kg/m<sup>3</sup> product is also a preferred density of product by MSE wall designers and suppliers, due to the virtually equivalent strength properties of the product, compared to standard density cellular concrete.

## The Joint Marketing Arrangement with Lafarge:

Lafarge Canada Inc. (“Lafarge”) re-affirmed a strengthened commitment to CEMATRIX, including increased sales and marketing support for the development of cellular concrete markets across Canada.

The overall objective of the agreements for both parties continues to be to work together to increase sales of cellular concrete, which in turn results in the sale of more cement and ready mix products for Lafarge. Although the joint efforts did not generate a significant number of new sales in 2017, both parties believe that together a great deal was accomplished, in the education of the market and Lafarge’s significant staff across Canada on the uses and benefits of cellular concrete. Much was also learned about the implementation of the regional expansion approach, although successful, it has not worked as intended. Recent changes to that program by both parties, should generate stronger results, and become a model for expansion into other regions across Canada. This will include additional support for the hiring of independent experienced sales professionals for the development of each new regional market, including the Prairie Region, which commenced in 2017. Our first joint independent salesperson for the Prairie Region will commence employment with CEMATRIX on August 20, 2018.

## Research Projects

### *Road Construction*

The research with the University of Waterloo’s civil engineering department was delayed into 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 June 30, 2018 compared to the three months ending June 30, 2017*

	Three Months Ended June 30		
	2018	2017	Change
Revenue	\$ <u>2,907,933</u>	\$ <u>2,208,230</u>	\$ <u>699,703</u>
Gross margin	\$ <u>638,804</u>	\$ 147,169	\$ 491,635
Operating expenses	<u>(761,148)</u>	<u>(508,474)</u>	<u>(252,674)</u>
Operating loss	<u>(122,344)</u>	<u>(361,305)</u>	<u>238,961</u>
Non-cash stock based compensation	<u>(11,163)</u>	49,502	<u>(60,665)</u>
Business acquisition costs	<u>(619,723)</u>	-	<u>(619,723)</u>
Finance costs, interest	<u>(102,875)</u>	(55,196)	<u>(47,679)</u>
Finance costs, accretion and fair value	<u>(198,867)</u>	1,290	<u>(200,157)</u>
Other income / (expenses)	<u>(88,986)</u>	<u>16,929</u>	<u>(105,915)</u>
Loss before income taxes	<u>(1,144,058)</u>	<u>(348,780)</u>	<u>(795,278)</u>
Recovery of deferred taxes	<u>176,791</u>	<u>99,118</u>	<u>77,673</u>
Net loss attributable to the common shareholder	<u>(967,267)</u>	<u>(249,662)</u>	<u>(717,605)</u>
Unrealized foreign exchange gain / (loss) on translation of foreign subsidiary	<u>36,916</u>	<u>(5,773)</u>	<u>42,689</u>
Comprehensive loss for period	\$ <u>(930,351)</u>	\$ <u>(255,435)</u>	\$ <u>(674,916)</u>
Fully diluted loss per common share for period	\$ <u>(0.025)</u>	\$ <u>(0.007)</u>	\$ <u>(0.018)</u>

	Three Months Ended June 30		
	2018	2017	Change
Revenue			
Infrastructure			
Western Canada	\$ <u>530,930</u>	\$ 732,084	\$ (201,154)
Eastern Canada	<u>1,859,844</u>	<u>1,427,479</u>	<u>432,365</u>
United States	<u>517,159</u>	-	<u>517,159</u>
	<u>2,907,933</u>	<u>2,159,563</u>	<u>748,370</u>
Western Canada oil and gas	<u>-</u>	<u>48,667</u>	<u>(48,667)</u>
	\$ <u>2,907,933</u>	\$ <u>2,208,230</u>	\$ <u>699,703</u>

Revenue was higher by 32% or \$699,703 largely as a result of including MOS from June 1, 2018 onwards and together with a net increase in the activity in Canada. Infrastructure projects in Eastern Canada increased by \$432,365 or 30% which offset the decline of \$201,154 or 27% in Western Canada infrastructure projects. The increase in Eastern Canada infrastructure projects can primarily be attributed to additional tunnel projects in the second quarter of 2018 compared to the same period in the prior year period.

Gross Margin was higher by \$491,635 or 334% when compared to the second quarter of 2018. As a percentage of revenues, the Gross Margin Percentage improved to 22% compared to 7% in 2017. The increase in Gross Margin Percentage is mainly due to the effect of increased revenues on a cost base that includes fixed costs. This effect is commonly referred to as operating leverage. In addition to this, the second quarter of 2018 is absent of a severance paid to an employee that occurred in the prior year period.

Operating expenses were higher by \$252,674 or 50% mainly due to the aggregate of the following:

- MOS operating costs of \$114,735 in 2018,
- Salaries and benefits increased by \$36,100 as a result of transition costs relating to the new CFO and an additional part time employee.

Non-cash stock based compensation expense was \$11,163 in the second quarter of 2018 compared to a recovery of \$49,502 in the second quarter of 2017. The increase of \$60,665 is the result of the absence of a forfeiture of 250,000 stock options that occurred in the prior year. At the time the employee left the Company, none of the options had vested and as a result the non-cash stock based compensation previously recorded in the amount of \$63,544 was reversed to income. 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.

Business acquisition costs of \$619,723 were incurred in the second quarter of 2018. These costs were for the acquisition of MOS and relate to: legal services of \$310,190, audit and accounting services of \$175,296, one time costs incurred to secure financing of \$75,333, valuations of \$15,672 and other of \$43,232.

Finance costs were \$301,842 in the second quarter of 2018 compared to \$53,906 in the second quarter of 2017, an increase of \$246,936 or 460%. The increase relates to the MOS acquisition and is specifically attributed to the following factors:

- Interest on the new \$1,800,000 USD BDC Loan in the amount of \$16,442;
- Interest on the new \$2,500,000 USD Convertible Note in the amount of \$21,118;
- Non cash accretion expense on the host debt contract portion of the new Convertible Note in the amount of \$24,256; and
- Non cash fair value adjustment to the derivative liability portion of the Convertible Note in the amount of \$175,605.

Other expenses were \$88,986 in the second quarter of 2018 compared to income of \$16,929 in the second quarter of 2017. The change of \$105,915 is largely the result of \$98,534 in unrealized foreign exchange losses recognized on the US operating loan of \$19,616, USD BDC Loan of \$30,040, earn-out liability of \$21,182 and Convertible Note of \$25,696. These liabilities are denominated in USD and as the Canadian dollar weakened relative to the USD, an unrealized foreign exchange loss was recognized.

The recovery of deferred income taxes is consistent with the losses recognized each period.

Unrealized foreign exchange gains and losses are recognized on the translation of foreign subsidiaries. Both MOS and Cematrix USA have a USD functional currency and as the Canadian dollar weakened relative to the USD, the value of these assets appreciated resulting in an unrealized foreign exchange gain of \$36,916 in the second quarter of 2018. The opposite effect occurred in the second quarter of 2017 which resulted in an unrealized foreign exchange loss of \$5,773.

The net loss before income taxes increased by \$795,278 in the second quarter of 2018 compared to the second quarter of 2017 largely as a result of one time or non cash items. Excluding the business acquisition costs of \$619,723, non-cash finance costs relating to the convertible note of \$199,861 and non-cash other expenses, being unrealized foreign exchange losses of \$98,534, the net loss before income taxes would have decreased / improved by \$122,840 compared to the prior year quarter.

*For the six months ending June 30, 2018 compared to the six months ending June 30, 2017*

	Six Months Ended June 30		
	2018	2017	Change
Revenue	\$ <u>4,384,401</u>	\$ <u>4,735,701</u>	\$ <u>(351,300)</u>
Gross margin	\$ <u>810,939</u>	\$ <u>681,854</u>	\$ <u>129,085</u>
Operating expenses	<u>(1,273,967)</u>	<u>(1,032,150)</u>	<u>(241,817)</u>
Operating loss	<u>(463,028)</u>	<u>(350,296)</u>	<u>(112,732)</u>
Non-cash stock based compensation	<u>(16,529)</u>	<u>21,093</u>	<u>(37,622)</u>
Business acquisition costs	<u>(619,723)</u>	<u>-</u>	<u>(619,723)</u>
Finance costs, interest	<u>(156,825)</u>	<u>(107,007)</u>	<u>(49,818)</u>
Finance costs, accretion and fair value	<u>(198,073)</u>	<u>2,580</u>	<u>(200,653)</u>
Other income	<u>(91,470)</u>	<u>18,816</u>	<u>(110,286)</u>
Loss before income taxes	<u>(1,545,648)</u>	<u>(414,814)</u>	<u>(1,130,834)</u>
Recovery (provision) of deferred taxes	<u>261,603</u>	<u>112,757</u>	<u>148,846</u>
Net loss			
attributable to the common shareholder	<u>(1,284,045)</u>	<u>(302,057)</u>	<u>(981,988)</u>
Unrealized foreign exchange gain / (loss) on translation of foreign subsidiary	<u>39,319</u>	<u>(5,237)</u>	<u>44,556</u>
Comprehensive loss for period	\$ <u>(1,244,726)</u>	\$ <u>(307,294)</u>	\$ <u>(937,432)</u>
Fully diluted loss per common share for period	\$ <u>(0.034)</u>	\$ <u>(0.009)</u>	\$ <u>(0.025)</u>

	Six Months Ended June 30		
	2018	2017	Change
Revenue			
Infrastructure			
Western Canada	\$ <u>640,903</u>	\$ <u>2,489,362</u>	\$ <u>(1,848,459)</u>
Eastern Canada	<u>3,226,339</u>	<u>2,170,865</u>	<u>1,055,474</u>
United States	<u>517,159</u>	<u>-</u>	<u>517,159</u>
	<u>4,384,401</u>	<u>4,660,227</u>	<u>(275,826)</u>
Western Canada oil and gas	<u>-</u>	<u>75,474</u>	<u>(75,474)</u>
	\$ <u>4,384,401</u>	\$ <u>4,735,701</u>	\$ <u>(351,300)</u>

On an overall basis, revenue was lower by \$351,300 or 7% when compared to the prior year. This was the result of a decline in both infrastructure of \$1,848,459 and oil and gas of \$75,474 revenues in Western Canada. This was partially offset by increases in Eastern Canada revenues of \$1,055,484, driven by tunnel projects, and the United States of \$517,159 pursuant to the acquisition of MOS.

The Gross Margin on revenues increased by \$129,085, or 19%, due to the lower maintenance costs as compared to 2017. Gross Margin Percentage increase to 18% for the six month period ended 2018 compared to 14% for the six month period ended 2017.

Operating expenses were higher by \$241,817 or 23%, due to the aggregate of the following:

- MOS operating costs of \$114,735 in 2018,
- Salaries and benefits increased by \$50,633 as a result of transition costs relating to the new CFO and an additional part time employee,
- Travel and business development costs increased by \$9,893

Non-cash stock based compensation expense was \$16,529 in first six months of 2018 compared to a recovery of \$21,093 in the first six months of 2017. The increase of \$37,622 is the result of the absence of a forfeiture of 250,000 stock options which occurred in the prior year. At the time the employee left the Company, none of the options had vested, and as a result the non-cash stock based compensation previously recorded in the amount of \$63,544 was reversed to income. 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.

Business acquisition costs of \$619,723 were incurred in the first six months of 2018. These costs were for the MOS acquisition and relate to: legal services of \$310,190, audit and accounting services of \$175,296, one time costs incurred to secure financing of \$75,333, valuations of \$15,672 and other of \$43,232.

Finance costs were \$354,898 in the first six months of 2018 compared to \$104,427 for the same period last year, an increase of \$250,471 or 240%. The increase relates to the MOS acquisition and is specifically attributed to the following factors:

- Interest on the new \$1,800,000 USD BDC Loan in the amount of \$16,442
- Interest on the new \$2,500,000 USD Convertible Note in the amount of \$21,118
- Non cash accretion expense to the host debt contract portion of the new Convertible Note of \$24,256
- Non cash fair value adjustment to the derivative liability portion of the Convertible Note of \$175,605.

Other expenses were \$91,470 in the first six months of 2018 compared to income of \$18,816 in the prior year period. The change of \$110,286 is largely the result of \$98,534 in unrealized foreign exchange losses recognized on the US operating loan of \$19,616, USD BDC loan of \$30,040, earn-out liability of \$21,182 and Convertible Note of \$25,696. These liabilities are denominated in USD and as the Canadian dollar weakened relative to the USD, an unrealized foreign exchange loss was recognized into income.

In 2018 a deferred tax recovery on losses of \$261,603 was recorded. In 2017 a deferred tax recovery of \$112,757 on income was recorded. The change year over year is due to lower results of the operations in comparison to the same period in 2017.

Unrealized foreign exchange gains and losses are recognized on the translation of foreign subsidiaries. Both MOS and Cematrix USA have a USD functional currency and as the Canadian dollar weakened relative to the USD, the value of these assets appreciated resulting in a unrealized foreign exchange gain of \$39,319 in the first six months of 2018. The opposite effect occurred in the first six months of 2017 which resulted in a unrealized foreign exchange loss of \$5,237 on translation.

The net loss before income taxes increased by \$1,130,834 in the first half of 2018 compared to the first half of 2017 largely as a result of one time or non cash items. Excluding the business acquisition costs of \$619,723, non-cash finance costs relating to the convertible note of \$199,861 and non-cash other expenses, being unrealized foreign exchange losses of \$98,534, the net loss before income taxes would have increased by \$918,118 compared to the prior year period.

#### 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 the six month period ended June 30, 2018, the Company benefitted from additional tunnel projects Eastern Canada in May and June. The Company continues pursuing other markets where seasonality is less of an issue. This seasonality is reflected in the quarterly results summarized in the table below:

Quarters Ended	Revenues \$	Comprehensive Income (Loss) \$	Income (Loss)	
			Per Share Basic \$	Per Share Diluted \$
2018 Year				
<b>March 31</b>	1,476,468	(314,375)	(0.009)	(0.009)
<b>June 30</b>	2,907,933	(930,351)	(0.025)	(0.025)
	<u>4,384,401</u>	<u>(1,244,726)</u>	<u>(0.034)</u>	<u>(0.034)</u>
2017 Year				
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)
December 31	548,784	(767,939)	(0.022)	(0.022)
Total for year	<u>7,713,906</u>	<u>(1,180,543)</u>	<u>(0.034)</u>	<u>(0.034)</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

	June 30 2018	December 31 2017	Change
Total current assets	\$ 5,433,275	\$ 1,574,263	\$ 3,859,012
Total non current assets	<u>13,204,860</u>	<u>4,955,799</u>	<u>8,249,061</u>
Total Assets	\$ <u>18,638,135</u>	\$ <u>6,530,062</u>	\$ <u>12,108,073</u>
Current liabilities	\$ 6,423,950	\$ 1,102,564	\$ 5,321,386
Non current liabilities	<u>8,637,240</u>	<u>2,042,553</u>	<u>6,594,687</u>
Total liabilities	\$ <u>15,061,190</u>	\$ <u>3,145,117</u>	\$ <u>11,916,073</u>
Shareholders' equity	\$ <u>3,576,945</u>	\$ <u>3,384,945</u>	\$ <u>192,000</u>

Total current assets increased by \$3,859,012. This increase in aggregate is summarized below:

- Cash in the bank was up \$287,450 (See the discussion in Section F - Consolidated Statement of Cash Flows);
- Trade and other receivables were up by \$3,443,553 as a result of the higher sales in the second quarter of 2018 in comparison to the fourth quarter of 2017, inclusion of MOS for the first time, combined with timing differences in the collection of trade receivables;

- Inventory was up \$25,909 due to the normal usage in the production process as offset by foaming agent purchases to bring this inventory back to a level to support revenue growth;
- Prepaids and deposits increased by \$100,078; mainly due to timing differences on certain items as compared to the 2017 year and the inclusion of MOS for the first time; and
- Current portion of share acquisition loans increased by \$2,022 due to the accretion of the fair value adjustment of \$1,788 and interest income of \$234. One of the individuals, who is not a Company employee, did not make the scheduled repayment of \$8,562. Interest is being charged on this outstanding repayment for January to June 2018.

Total non current assets increased by \$8,249,061. This increase in aggregate is summarized below:

- Property and equipment increased by \$2,498,812 as a result of assets acquired from MOS of \$2,709,402 and additions of \$10,843 being offset by depreciation expense for the six months ended June 30, 2018 of \$241,587. The effects of foreign exchange were \$20,154.
- Intangibles assets increased by \$6,531,946 as a result of the goodwill (\$5,881,947) and sales backlog (\$638,879) recognized on the acquisition of MOS. In addition, spending on research projects was \$67,825 (including \$22,326 of capitalized labour) was partially offset by funding received from government grants of \$16,775. Amortization expense on the sales backlog of \$39,930 was recognized in the period.
- The deferred tax asset decreased by \$781,697 as a result of the MOS provision for deferred tax that offset the recovery of deferred tax on Canadian losses incurred in the six months ended June 30, 2017.

Total current liabilities increased by \$5,321,386. This increase in aggregate is summarized below:

- Bank overdraft increased by \$224,824;
- Bank operating loan increased by \$1,182,909 to fund working capital requirements for Canadian operations;
- US operating loan increased by \$987,916 to fund working capital requirements for MOS;
- Trade and other payables increased by \$2,080,147 largely as a result of business acquisition costs (\$448,042), the inclusion of MOS trade payables of \$651,061 and increased business activity in the three month ended June 30, 2018 as compared to the three months ended December 31, 2017;
- Current portion of long term debt was increased by \$197,075 due to new BDC US Loan in June 2018; repayments for the BDC loans run from July to December;
- Current portion of finance lease obligations increased by \$28,309 due to the addition of MOS lease and the reclassification from the long term portion of \$18,698; and
- Current portion of the earn-out liability was \$620,206 and is the result of the MOS acquisition. The earn-out is based upon management's estimate and represents 70% of MOS's EBITDA above \$500,000 USD for the 12 month period from June 1, 2018 to May 31, 2019.

Total non current liabilities increased by \$6,594,687. This increase in aggregate is summarized below:

- Long term debt was up \$2,167,585 as a result of the new \$1,800,000 USD BDC loan, which at June 2018 had a Canadian equivalent value of \$2,364,660. This was partially offset by a reclassification to current portion; the repayments for the BDC loans run from July to December;
- Finance lease obligations were up \$18,698 due to a reclassification to current portion in the six months ended June 30, 2018 (see comment above).
- Earn-out liability was \$943,097 and is the result of the MOS acquisition. The earn-out is based upon management's estimate and represents 65% of MOS's EBITDA above \$500,000 US for the 24 month period from June 1, 2019 to May 31, 2021.
- The Convertible Note has a face value of \$2,500,000 USD and was issued on the acquisition of MOS. On issuance, the convertible note was bifurcated into a conversion feature and a debt host

contract. At June 30, 2018, the convertible note had an aggregate carrying value of \$3,465,307. The conversion feature is accounted for at fair value and had a value of \$1,545,646 at June 2018. The host debt contract is accounted for at amortized cost and had a value of \$1,919,661 at June 2018.

Shareholders' Equity decreased by \$192,000. This increase in aggregate is summarized below:

- Share capital increased by \$1,184,616 as a result of the acquisition of MOS (\$735,553) and private placement (\$684,644). This was offset by a reclassification to contributed surplus for the value of the share purchase warrant issued as part of the private placement (\$235,582).
- Contributed surplus increased by \$252,110 as a result of non-cash stock based compensation of \$11,162 recorded in the period and the reclassification of share purchase warrants from the private placement of \$235,582 from share capital.
- Accumulated other comprehensive income increased by \$36,917 due to the unrealized foreign exchange gain on translation of MOS and Cematrix USA in the six months ended June 30, 2018; and
- The Deficit increased by \$967,267 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 June 30, 2018.

## F. Consolidated Statement of Cash Flows

### *For the three months ending June 30, 2018 compared to the three months ending June 30, 2017*

The cash position of the Company at June 30, 2018 was \$50,506 (consisting of cash in the bank of \$330,383 net of the bank overdraft of \$279,877) compared to \$108,444 at June 30, 2017.

The change in the cash position in the quarters ending June 30, 2018 and 2017 was an increase of \$241,813 in 2018 as compared to an increase of \$95,791 in the same period of 2017. This change is outlined in the table below:

	Three Months Ended June 30		
	2018	2017	Change
Cash generated from (used in) operating activities			
Before non-cash working capital adjustment	\$ (654,483)	\$ (283,766)	\$ (370,717)
Net change in non-cash working capital items	424,922	723,365	(298,443)
	<b>(229,561)</b>	439,599	(669,160)
Cash used in investing activities	<b>(2,830,794)</b>	(107,878)	(2,722,916)
Cash from (used in) financing activities	<b>3,300,608</b>	(230,157)	3,530,765
Foreign exchange effect on cash	<b>1,560</b>	(5,773)	7,333
Increase in cash	<b>241,813</b>	95,791	146,022
Cash, at beginning of period	<b>(191,307)</b>	12,653	(203,960)
Cash, at end of period	<b>\$ 50,506</b>	\$ 108,444	\$ (57,938)

- Cash generated from operating activities decreased by \$669,160.
  - Cash flow before non cash working capital adjustments decreased by \$370,717. The decrease was due to the increase in net loss before taxes of \$717,605 offset with higher addback of non-cash items of \$346,888, primarily due to an increase in the fair market value of derivative liability and unrealized foreign exchange loss and
  - Net change in non-cash working capital items decreased by \$298,443 primarily due to the level of trade receivables generated in the respective periods and the timing of their collection.

- Cash used in investing activities increased by \$2,722,916.
  - Equipment purchases decreased by \$54,685; the Company added to its equipment fleet in 2017;
  - Spending on research programs decreased by \$30,384 in 2018; one of the research projects was completed in March 2018.
  - The gross cash cost of the acquisition of MOS was \$3,051,595, which was financed with a \$1,800,000 USD loan from the BDC, a portion of the funds raised from the Private Placement and from working capital. Cash held by MOS on the acquisition date was \$243,610 and is net from the gross cash cost of the acquisition for the purposes of the statement of cash flow.
- Cash used in financing activities increased by \$3,530,765.
  - In 2018 the Company generated \$3,330,806 from financing activities. The following sources of financing were received by the Company: Long term debt generated \$2,332,620 of cash pursuant to a \$1,800,000 USD loan from the BDC; the bank operating loan provided \$1,182,909 in cash and the private placement generated net proceeds of \$684,644 from the issuance of common shares and share purchase warrants. This was offset by scheduled repayments of \$17,180 on finance lease obligations.
  - In 2017 the Company used \$230,157 in financing activities; the collection of receivables was used to reduce its bank operating loan by \$287,886, the BDC equipment loan was drawn down by \$53,855 to finance the acquisition of a new service vehicle to support the agreement with Lafarge for the regional expansion of cellular concrete and Ready Mix sales; proceeds of \$18,430 were received from government grants on its research projects and scheduled repayments of \$14,556 were made on finance lease obligations.

***For the six months ending June 30, 2018 compared to the six months ending June 30, 2017***

The cash position of the Company at June 30, 2018 was \$50,506 (consisting of cash in the bank of \$330,383 net of the bank overdraft of \$279,877) compared to \$108,444 at June 30, 2017.

The change in the cash position in the quarters ending June 30, 2018 and 2017 was an increase of \$62,626 in 2018 as compared to an increase of \$57,311 in the same period of 2017. This change is outlined in the table below:

	Six Months Ended June 30		
	2018	2017	Change
Cash generated from (used in) operating activities			
Before non-cash working capital adjustment	\$ (951,229)	\$ (194,266)	\$ (756,963)
Net change in non-cash working capital items	(288,638)	268,311	(556,949)
	<b>(1,239,867)</b>	74,045	<b>(1,313,912)</b>
Cash used in investing activities	<b>(2,886,653)</b>	(297,815)	<b>(2,588,838)</b>
Cash generated from (used in) financing activities	<b>4,185,183</b>	286,318	<b>3,898,865</b>
Foreign exchange effect on cash	<b>3,963</b>	(5,237)	<b>9,200</b>
Increase (decrease) in cash	<b>62,626</b>	57,311	<b>5,315</b>
Cash, at beginning of period	<b>(12,120)</b>	51,133	<b>(63,253)</b>
Cash, at end of period	<b>\$ 50,506</b>	<b>\$ 108,444</b>	<b>\$ (57,938)</b>

- Cash generated from operating activities decreased by \$1,313,912.
  - Cash flow before non-cash working capital adjustments decreased by \$765,963. The decrease was due to the increase in net loss before taxes of \$981,988 offset with higher addback of non-cash items of \$225,025, primarily due to an increase in the fair market value of derivative liability and unrealized foreign exchange loss and

- Net change in non-cash working capital items decreased by \$556,949 due primarily to the level of trade receivables generated in the respective periods and the timing of their collection.
- Cash used in investing activities increased by \$2,588,838.
  - Equipment purchases decreased by \$184,057; in 2017 there was an acquisition of a new service vehicle to support the agreement with Lafarge for the regional expansion of cellular concrete and Ready Mix sales;
  - Spending on research programs was down \$37,390 in 2018; one of the research projects was completed in March 2018;
  - The gross cash cost of the acquisition of MOS was \$3,051,595, which was financed with a \$1,800,000 USD loan from the BDC, a portion of the funds raised from the Private Placement and from working capital. Cash held by MOS on the acquisition date was \$243,610 and is net from the gross cash cost of the acquisition for the purposes of the statement of cash flow.
- Cash used in financing activities increased by 3,898,865.
  - In 2018 the Company generated \$3,330,806 from financing activities. The following sources of financing were received by the Company: Long term debt generated \$2,332,620 of cash pursuant to a \$1,800,000 USD loan from the BDC ; the bank operating loan provided \$1,182,909 in cash; the private placement generated net proceeds of \$684,644 from the issuance of common shares and share purchase warrants and proceeds of \$16,775 were received in government grants on it's project testing programs. This was offset by scheduled repayments of \$31,765 on finance lease obligations.
  - In 2017 the Company generated \$286,318 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 \$34,430 were received from government grants on its research projects and scheduled repayments of \$28,667 were made on finance lease obligations.

## **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, accessing capital debt facilities through loans or lease financing and financing supplied through public offerings of its shares.

The Company, through its wholly owned subsidiary CEMATRIX Canada, has a \$1,500,000 bank operating loan with the Canadian Western Bank ("CWB" or "Bank"). Under the bank operating loan, the Bank will advance up to \$1,500,000 based on 75% of trade receivables less than ninety days outstanding at the end of each month and 50% of inventories (up to a maximum \$250,000). Based on these restrictions the actual bank operating loan availability at June 30, 2018 was \$1,500,000. The actual bank operating loan was \$1,249,308 as at June 30, 2018.

The bank operating loan bears interest at an amount equal to the greater of 4.7% or 2.0% above the CWB prime lending rate, as may occur from time to time.

The bank operating loan has four financial covenants that must be maintained on a consolidated basis:

- Cash flow coverage ratio of not less than 1.25, tested not less than annually. This is a ratio of EBITDA to all interest (paid or accrued) plus the actual principal payment obligations for the trailing fiscal year on all indebtedness for borrowed money and finance leases;

- Tangible net worth of not less than \$3,000,000, tested no less than monthly. Tangible net worth is defined as the aggregate of share capital and retained earnings (shareholders' equity);

- Debt to tangible net worth ratio not greater than 1.75, tested no less than monthly. This is the ratio of indebtedness for borrowed money and finance leases divided by the net tangible worth (defined above); and

- Current ratio not less than 1.25, tested no less than monthly. This is the ratio of current assets, excluding amounts due from related parties, to current liabilities.

At June 30, 2018, one of the bank operating loan covenants were not met - the current ratio test. In August 2018, the CWB granted relief on the current ratio test in relation to the bank operating loan for the period ended June 30, 2018.

The Company, through its wholly owned subsidiary MOS, has a \$750,000 USD operating loan which is fully drawn. The interest, which is payable quarterly, is at a variable rate of 2.0% above the JPMorgan Chase Bank's prime lending rate, which is currently set at 5.0%. The principal must be repaid in full before May 31, 2019. At June 30, 2018 the Canadian equivalent of this loan was \$987,916.

The Company has \$319,445 of undrawn equipment financing with the BDC that will be used, as required, to fund the construction of additional production units. (See note 13 to the Interim Consolidated Financial Statements).

At June 30, 2018, the Company had Net Working Capital of \$2,423,748 compared to \$934,355 at December 31, 2017.

For the six months ended June 30, 2018, the Company reported a loss of \$1,545,648, before taxes, negative cash from operations of \$951,229, before the non-cash working capital adjustment, and negative EBITDA of \$174,447.

On April 30, 2018 and June 26, 2018, the Company completed the first and second tranches of a Private Placement for net proceeds of \$684,644. The net proceeds were used for general working and growth capital and to finance a portion of the purchase price for the MOS acquisition.

The Company introduced cash flow measures at the beginning of 2018 to reduce cash flow requirements. The executive management have taken a 20% reduction in base salary, and all other salaried staff a 10% reduction, until the Company returns to profitability; the Company has negotiated a 10% reduction in the rental cost of its Calgary facility, has leased out part of its Calgary facility and cost constraints have been placed on all discretionary spending. With the increase in business and the addition of MOS, these temporary measures have ended.

The Company has signed contracts on hand for \$23.5 million and Verbally Awarded projects of \$7.6 million for a total of \$31.1 million, \$7 to \$8 million of which will be backlog for 2018 and the Company has a number of other contracts in process.

The realization of the net working capital as at June 30, 2018, the availability of the CWB demand operating loan, proceeds raised from a Private Placement and the successful completion of sales contracts that are in place provide the necessary liquidity to carry the Company's operations through 2018. Ongoing liquidity beyond this, is dependent on the Company achieving additional sales and profitable results.

### *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 3, which has \$319,445 remaining to be drawn down.

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 26 - Capital management to the Interim Consolidated Financial Statements, was \$14,145,444 at June 30, 2018 as compared to \$5,839,246 at December 31, 2017 (see Section E. Consolidated Statements of Financial Position for details).

### *Commitments*

The following is a summary of the Company's lease and long term debt obligations and commitments for the next five years from June 30, 2018.

Debt Category	2018/19	2019/20	2020/21	2021/22	2022/23
	\$	\$	\$	\$	\$
Finance lease obligations (1)	119,440	124,436	55,822	6,641	237
BDC Financing (2) (3)	546,197	686,045	591,125	390,383	378,863
Secured Debenture (2)	-	1,000,000	-	-	-
Operating leases	290,028	147,284	-	-	-
Earn-out liability	620,206	496,771	446,326	-	-
Convertible note	-	-	3,465,307	-	-

(1) Includes principal and interest

(2) Principal only

(3) Based on BDC loans drawn down as of June 30, 2018

(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 June 30, 2018 or December 31, 2017

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

During the three and six months ended June 30, 2018, the Company incurred legal fees from a firm which employs one of the directors of the Company in the amount of \$156,920 (\$14,305 and \$17,864, respectively for the same periods in 2017) of which \$128,389 is in trade and other payables as at June 30, 2018 (December 31, 2017 - \$2,651).

The Vendor is currently a director of the Company and holds half of the US operating loan (\$987,916), half of the earn-out liability (\$1,563,303) and half of the convertible note (\$3,465,307).

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

The preparation of condensed consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the condensed consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Judgements, estimates and

assumptions 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 these uncertainties 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, 2017. There have been no changes since that date other than as indicated below:

**Business acquisitions** – In a business combination, the Company may acquire certain assets and assume certain liabilities of an acquired entity. The estimate of fair values for these transactions involves judgment to determine the fair values assigned to the tangible and intangible assets (i.e. sales backlog) acquired and the liabilities assumed on the acquisition. Determining fair value involves a variety of assumptions, including expected earnings and discount rates. During a measurement period, not to exceed one year, adjustments of the initial estimates may be required to finalize the fair value of assets acquired and liabilities assumed. After the measurement period, a revision of fair value may impact the Company's earnings.

**Earn-out liability** – The earn-out is based upon an estimate of EBITDA. There is a significant amount of uncertainty with respect to estimating EBITDA given the necessity of making key economic projections related to the following key assumptions: future cash flows, industry growth opportunities, including general economic risk assumptions, gross margins, and discount rate.

**Intangible assets useful lives** – Management considers the useful lives of assets to be the period of time over which these assets are expected to be used by the Company. Actual useful lives could differ from estimates.

## **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, 2017. There have been no changes since that date other than as indicated below:

### *IFRS 15 Revenue from Contracts with Customers ("IFRS 15")*

The Company adopted IFRS 15 on a modified retrospective basis effective January 1, 2018. The standard supersedes IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

IFRS 15 sets out a five step model for revenue recognition. The core principal is that revenue should be recognized to depict the transfer of goods and services to customers in an amount that reflects the consideration that the Company expects to be entitled for those goods and services.

The Company principally generates revenue from the onsite production and placement of cellular concrete (the "Product") pursuant to contractual arrangements with its customers. This revenue is recognized when the control or title of the Product is transferred from the Company and collection is reasonably assured in accordance with specified contract terms. All revenue is generally earned at a point in time and is based on the consideration that the Company expects to receive for the transfer of the Product to the customer. The Company has reviewed its sources of revenue and major contacts with customers using the guidance found in IFRS 15 and determined that there are no material changes to the timing and measurements of the Company's revenue, as compared to the provisions of the previous standards.

Revenue is measured based on the consideration specified in a contract with its customers. Payment terms with customers are generally 30 days from the date of the invoice. The Company generally does not have any sales contracts where the period between the transfer of the Product to the customer and payment by the customer exceeds one year. As a result, the Company does not adjust its revenue transactions for the time value of money.

The Company enters into contracts with customers that have performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date. The Company applies a practical expedient of IFRS 15 and

does not disclose information about the remaining performance obligations that have original expected durations of one year or less, or for performance where the Company has a right to consideration from a customer in an amount that corresponds directly with the value to the customer on the Company's performance to date.

Contract modifications with the Company's customers could change the scope of the contract, the price of the contract, or both. A contract modification exists when the parties to the contract approve the modification in writing. Contract modifications are generally accounted for as part of the existing contract prospectively over the remaining term of the contract.

All of trade receivables were generated from contracts with customers.

#### *IFRS 9 Financial Instruments ("IFRS 9")*

The Company adopted IFRS 9 effective January 1, 2018. The adoption of IFRS 9 did not result in any adjustments to the amounts recognized in the Company's consolidated financial statements for the year ended December 31, 2017.

The Company measures its financial assets and liabilities at fair value on initial recognition, which is typically the transaction price unless a financial instrument contains a significant financing component. Subsequent measurement is dependent if the financial instrument's classification, which in the case of financial assets, is determined by the context of the Company's business model and contractual cash flow characteristic of the financial asset. Financial assets are classified into two categories: (1) measured at amortized cost and (2) fair value through profit and loss ("FVTPL"). Financial liabilities are subsequently measured at amortized cost, other than financial liabilities that are measured at FVTPL, or designated as FVTPL, where any change in fair value resulting from an entity's own credit risk is recorded as other comprehensive income ("OCI"). The Company does not currently employ hedge accounting for risk management contracts that may be in place.

The Company classifies its cash and cash equivalents, term deposits, trade and other receivables, share acquisition loans, bank overdraft, demand operating loan, trade and other payables and long term debt as measured at amortized cost. The contractual cash flows received from the financial assets are solely the payment of principal and interest and are held within a business model whose objective is to collect the contractual cash flows. These financial assets and financial liabilities are subsequently measured at amortized cost using the effective interest method. The carrying value of the Company's cash and cash equivalents, term deposits, trade and other receivables, bank overdraft, demand operating loan and trade and other payables approximate their fair values.

The Company does not currently have any risk management contracts. Financial assets and liabilities classified as FVTPL are subsequently measured at fair value with changes in fair value charged immediately to the statement of income (loss). The adoption of IFRS 9 did not result in changes to the classifications of the Company's financial assets or financial liabilities. There is no difference in the measurement of these instruments under IFRS 9 due to the short term and liquid nature of the financial assets.

IFRS 9 also introduces a new model for the measurement of impairment of financial assets based on expected credit losses which replaces the incurred losses impairment model previously applied. Under this new model, the Company's accounts receivable are considered collectible within one year or less; therefore, these financial assets are not considered to have a significant financing component and a lifetime expected credit loss ("ECL") is measured at the date of initial recognition of the accounts receivable. ECL allowances have not been recognized for cash and cash equivalent and term deposits due to the virtually certainty of their collectability.

The Company's trade and other receivables are subject to the ECL model under IFRS 9. For trade and other receivables, the Company applies the simplified approach to providing for expected losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables. In

estimating the expected lifetime expected loss provision, the Company considered historical Company and industry default rates as well as credit ratings of major customers.

#### *IFRS 3 Business Combinations (“IFRS 3”)*

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred to the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued or cash paid by the Company in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred, unless related to the issuance of debt or equity. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

-Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12, Income Taxes, and IAS 19, Employee Benefits, respectively;

- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Company entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2, Share-based Payment, at the acquisition date; and

-Assets that are classified as held-for-sale in accordance with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, are measured in accordance with that standard.

The Company measures goodwill as the excess of the sum of the fair value of the consideration transferred, the amount of any non-controlling interests, and the fair value of the acquirer’s previously held interest in the acquiree, if any, over the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

When the consideration transferred includes liabilities from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are those that arise from additional information obtained during the ‘measurement period’ about facts and circumstances that existed at the acquisition date.

Subsequent to the acquisition date, contingent consideration that is classified as a liability is remeasured at subsequent reporting dates, with the corresponding gain or loss being recognized in earnings or loss.

#### *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 April 1, 2018 or later periods. The standards impacted that are applicable to the Company are as follows:

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 this future accounting pronouncement.

## **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, 2017 and Note 25 – 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 loans, which had a balance of \$3,577,887 outstanding at June 30, 2018, the bank operating loan, which had a balance of \$1,249,308 outstanding at June 30, 2018 and the operating loan, which had a balance of \$987,916 at June 30, 2018 are subject to floating market rates. Based on this floating rate debt outstanding as at June 30, 2018, a 1% increase/decrease in interest rates would result in a decrease/increase in net loss attributable to common shareholders of approximately \$42,450.

### ***Credit Risk***

The Company is responsible for reviewing the credit risk for each customer before standard payment and delivery terms and conditions are offered. The Company review consists of external ratings, when available, and in some cases bank and trade references. Management has established a credit policy under which new customers are analyzed for creditworthiness before the Company extends credit. The Company monitors its trade and other receivables aging on an ongoing basis as part of its process in managing its credit risk. The Company also manages credit risk related to trade and other receivables on a consolidated basis whereby the aggregate exposure to individual customers is reviewed and their credit quality is assessed. The Company has not historically experienced any material credit losses.

Financial instruments that subject the Company to credit risk consist primarily of cash and cash equivalents, term deposits, trade receivables and the share acquisition loans. The Company's cash is held with large established financial institutions. The Company manages credit risk using credit approval and monitoring practices. At June 30, 2018, 6 customers accounted for approximately 86% of trade receivables (at December 31, 2017, 6 customers accounted for approximately 89% of trade receivables). For the six months ended June 30, 2018, 3 customers each accounted for over 18% of revenues. At June 30, 2018, the Company had \$330,383 of cash and cash equivalents (December 31, 2017 - \$42,933), an \$80,000 term deposit (December 31, 2017 - \$80,000) and \$50,389 (December 31, 2017 - \$48,367) of fair valued share acquisition loans that are outstanding with an officer and a former officer of the Company.

## Liquidity Risk

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

The table on the next page summarizes the maturity profile of the Company's financial liabilities at June 30, 2018 and December 31, 2017 based on contractual undiscounted payments.

	Less than 1 year	1 to 2 years	2 to 5 years	Total
<b>As at June 30, 2018</b>				
Bank overdraft	\$ 279,877	\$ -	\$ -	\$ 279,877
Bank operating loan	1,249,308	-	-	1,249,308
US operating loan	987,916	-	-	987,916
Trade and other payables	2,649,511	-	-	2,649,511
Long-term debt	546,217	1,686,044	2,345,626	4,577,887
Finance lease obligations	90,915	136,326	60,840	288,081
Earn-out liability	620,206	496,771	446,326	1,563,303
Convertible note	-	-	3,465,307	3,465,307
	<u>\$ 6,423,950</u>	<u>\$ 2,319,141</u>	<u>\$ 6,318,099</u>	<u>\$ 15,061,190</u>
	Less than 1 year	1 to 2 years	2 to 5 years	Total
<b>As at December 31, 2017</b>				
Bank overdraft	\$ 55,053	\$ -	\$ -	\$ 55,053
Bank operating loan	66,399	-	-	66,399
Trade and other payables	569,364	-	-	569,364
Long-term debt	349,142	1,390,462	473,623	2,213,227
Finance lease obligations	62,606	135,287	43,181	241,074
	<u>\$ 1,102,564</u>	<u>\$ 1,525,749</u>	<u>\$ 516,804</u>	<u>\$ 3,145,117</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 June 30, 2018 and December 31, 2017 the following balances were denominated in USD:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 137,445	\$ 32,136
Trade and other receivables	\$ 1,026,548	\$ 39,191
Prepaid expenses and deposits	\$ 71,004	\$ 10,127
Trade and other payables	\$ 510,903	\$ 8,148
US operating loan	\$ 750,000	\$ -
Long term debt	\$ 1,800,000	\$ -
Finance lease obligations	\$ 58,439	\$ -
Earn-out liability	\$ 1,190,000	\$ -
Convertible note	\$ 2,500,000	\$ -

The Company's primary foreign exchange sensitivity is in relation to movements of the USD against the Canadian dollar. Based on USD balances as at June 30, 2018 a 5% increase/decrease of the USD against the Canadian dollar would result in an increase/decrease in total comprehensive loss of approximately \$270,200.

## M. Disclosure of Outstanding Share Data

As at June 30, 2018 and August 15, 2018, the following is a description of the outstanding equity securities and convertible securities previously issued by the Company.

	<u>Authorized</u>	<u>Outstanding as at June 30, 2018</u>	<u>Outstanding as at August 15, 2018</u>
Voting or equity securities issued and outstanding	Unlimited Common Shares	41,300,545 Common Shares	41,300,545 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 3,525,000 Common Shares at an exercise price at between \$0.145 - \$0.43
Securities convertible or exercisable into voting or equity securities – share purchase warrants	Unlimited Share Purchase Warrants	Share purchase warrants to acquire 1,740,565 common shares at a price of \$0.35	Share purchase warrants to acquire 1,740,565 common shares at a price of \$0.35

On April 30, 2018 and June 26, 2018, the Company completed the first and second tranches a non-brokered Private Placement for 3,481,130 units (each, a "Unit") at a price of \$0.20 per Unit for net proceeds of \$684,644. Each Unit is comprised of one common share and one half warrant (each a "Warrant"). Each

full Warrant entitles the holder thereof to acquire one common share for \$0.35 until their expiry date of April 30, 2020.

On April 30, 2018, 250,000 stock options were issued to the newly appointed chief financial officer of the Company with an exercise price of \$0.20 per common share. The stock options are for a three year term and will vest over three years as to one third at the end of each year.

In May 2018, as part of the MOS acquisition agreement, the Vendor was appointed a director of the Company and engaged as a consultant. This is for a period of three years as of the closing date. The Vendor received 150,000 stock options for his role as a director and 350,000 for his role as a consultant. The stock options will be exercisable into common shares of the Company at an exercise price of \$0.20 per common share. These stock options will be for a three year term and will vest over three years as to one third at the end of each year.

#### **N. Outlook**

Management continues to focus liquidity, cash flow and a return to profitability for 2018. This will be achieved as the accretive benefits of the MOS acquisition are realized and contracted projects are completed.

The Company's Sales Pipeline continues to grow in Canada and the United States and this confirms that there will be significant growth in infrastructure sales for 2018 and bodes well for a strong future in this growing market. future.

Management also expects sales in the oil and gas sector of Western Canada will begin to improve in 2018 and continue to improve in the future, as well.

"The completion of these 2018 contracted and scheduled projects will mean a return to profits and positive cash flow in the third quarter of 2018, together with a return to a positive working capital position by the year ended December 31, 2018," stated Jeff Kendrick, President and CEO of CEMATRIX Corporation.

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

**Form 51-102F1 - Management's Discussion & Analysis  
For the Three and Six Months Ended June 30, 2018**

**Appendix A – Forward Looking Statements**

The forward-looking statements in the MD&A for the three and six months ending June 30, 2018 are outlined below:

General

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

*The foregoing statements contains forward-looking statements which are based on sales forecasts prepared for 2018; sales forecasts include work which is under contract for 2018, as well as probability adjusted forecasts for projects on which the Company has placed or will place bids in the coming year, 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 2018 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.*

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

**Form 51-102F1 - Management's Discussion & Analysis  
For the Three and Six Month Ending June 30, 2018**

**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), a 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.

**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.

**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.

**EBITDA**

Earnings before interest, taxes, depreciation, amortization, non cash stock based compensation, non cash unrealized foreign exchange gains / (loss) and business acquisition costs.