CEMATRIX CORPORATION
Management's Discussion and Analysis
For Three and Nine Months Ended September 30, 2019

Date Completed: November 6, 2019

<u>CEMATRIX CORPORATION</u>
<u>www.cematrix.com</u>

Form 51-102F1 - Management's Discussion & Analysis
For the Three and Nine Months Ended September 30, 2019

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, 2019. 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, 2019 (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, 2018 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. CEMATRIX is listed on the TSX Venture Exchange under the trading symbol "CVX".

On November 6, 2019 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, 2019. The Board of Directors of the Company reviewed and approved the Interim Consolidated Financial Statements and MD&A on November 6, 2019.

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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, 2018, 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 the International Accounting Standards Board.

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, 2019, the Company’s financial condition as at September 30, 2019 and its future prospects.

B. Highlights

Financial Review

Third Quarter

Revenue was $7,622,397 in the third quarter of 2019, an increase of $582,558 or 8% from the $7,039,839 recorded in the third quarter of 2018. This resulted in a Gross Margin of $2,362,270 in Q3 2019 an improvement of $847,332 or 56% compared to $1,514,938 in Q3 2018. Gross Margin Percentage was 31% in Q3 2019 compared to 22% in Q3 2018.

Operating income was $683,330 in the third quarter of 2019, an increase of $191,897 or 39% compared to $491,433 in the third quarter of 2018. The loss attributed to the common shareholder was $293,510 in the third quarter of 2019, an increase of $286,310 compared to the loss of $7,200 in the third quarter of 2018.

The results realized in the third quarter of 2019 represents a continuation of the momentum that we have built in the last 18 months and another step in the realization of our forecasted $25 million in revenues. The significant improvements in gross margins did not carry through to net income on the account of 3 significant events, being:

- Credit loss of $455,334 as Hollister Construction Services filed for Chapter 11 on September 11, 2019, negatively impacting operating costs in quarter. The credit loss was mitigated by 80% as 70% or $318,734 was offset through a reduction in the Earn-out Liability and a further 10% or $45,533 a reduction in management bonuses;
- Non cash stock based compensation increase of $206,975 attributed to the extension of stock options previously granted to employees; and
- Non recurring business acquisition costs of $280,824 relating to Pacific International Grout Co ("PIGCO") which closed on October 1, 2019. The majority of the costs relating to PIGCO acquisition have been incurred in period ending September 30, 2019, while the financial results for the acquisition will be included from October 1, 2019 onwards.

Year To Date

Revenue was $17,256,666 in the first nine months of 2019, an increase of $5,832,426 or 51% from the $11,424,240 recorded in the first nine months of 2018. This resulted in a Gross Margin of $4,722,033 in the first nine months of 2019 an improvement of $2,396,156 or 103% compared to $2,325,877 in the first nine months of 2018. Gross Margin Percentage was 27% in the first nine months of 2019 compared to 20% in the first nine months of 2018.

Operating income was $893,429 in the first nine months of 2019, an improvement of $825,094 compared to $68,335 in the first nine months of 2018. The loss attributed to the common shareholder was $1,218,857 in the first nine months of 2019, an improvement of $81,965 compared to the loss of $1,300,822 in the first nine months of 2018.

Report on Major Initiatives

Acquisition of Pacific International Grout Company

On October 1, 2019 the Company acquired all the issued and outstanding shares of PIGCO for consideration of:

- Cash in the amount of $2.8 million USD (the "Cash Purchase Price");
- Vendor financing in the amount of $0.575 million USD, which is non interest bearing and is to be repaid over six months commencing January 1, 2020; and
- 3,305,250 common shares of the Company

In addition to this, the Company will assume a $0.430 million USD shareholder loan (the "Vendor Loan") and enter into a four year earn-out (the "Earn-out"). The $0.430 million USD Vendor Loan bears no interest and is to be repaid in twelve equal monthly installments commencing on November 1, 2019. The Earn-out will be calculated annually on the operations of PIGCO for four years following the effective date the acquisition, August 31, 2019, and will pay the vendor 65% of the EBITDA above $0.5 million USD in each 12 month period.

The Cash Purchase Price was financed with a $2.8 million USD loan (the "Loan") with the Business Development Bank of Canada. The interest rate is set at 3.7% above the BDC's US Dollar Floating Base rate, which is currently at 6.7%. The Loan matures and will be repaid in full on December 1, 2025. Principal prepayments commence on July 1, 2020 with six monthly payments in each calendar year from July to December for a total of 36 monthly payments. The first monthly principal payment is $78,050 USD and the remaining 35 monthly principal repayments are $77,770 USD.

Non Brokered Private Placement

On August 26, 2019, CEMATRIX announced the completion of a non-brokered private placement of 11,500,000 units (each, a "Unit") at a price of $020 per Unit for gross proceeds of $2,300,000 to move forward with the PIGCO acquisition. Each Unit will be comprised of one common share of the Corporation (a "Common Share") and one warrant (a "Warrant"). Each Warrant will be exercisable into one Common Share for a period of two years at an exercise price of $0.30 per Common Share. The proceeds of this financing will be used for general business purposes, improving the liquidity and financial position of the Corporation.

Bristol Capital LTD ("Bristol")

On September 12, 2019 CEMATRIX announced that it has entered into an investor relations agreement with Bristol, a leading investor relations and capital markets advisory firm service Canadian and US micro cap and small cap companies across international markets, to provide investor relations and communication services. Bristol will provide investor relations services to the Corporation, including the development of new and improved investor materials, introductions to Bristol's direct network of investment professionals, coordination of public events and proactive investor relations campaigns to increase the Corporation's exposure in the investment community.

Canadian Highways Research Project

The University of Waterloo is currently working on a research program that will measure the performance of cellular concrete as a roadway subbase. This program is co-funded by CEMATRIX and the Natural Science and Engineering Research Council of Canada (NSERC). The project includes both laboratory testing and multiple instrumented roadway test sections. The first test section was successfully installed in October 2018 in The Region of Waterloo, with another longer section to be installed in 2020. The preliminary results of lab and field tests have been highly encouraging, showing potential for much longer lasting highways when compared to traditional construction. Completion of the research program is scheduled for Q4 2020.

C. Results of Operations

For the three months ending September 30, 2019 compared to the three months ending September 30, 2018

	Three Months Ended September 30		
	2019	2018	Change
Revenue	**$ 7,622,397**	$ 7,039,839	$ 582,558
Gross margin	**$ 2,362,270**	$ 1,514,938	$ 847,332
Operating expenses	**(1,678,940)**	(1,023,505)	(655,435)
Operating income	**683,330**	491,433	191,897
Non-cash stock based compensation	**(231,758)**	(24,783)	(206,975)
Finance costs	**(221,848)**	(193,868)	(27,980)
Other income (expense)	**(33,517)**	113,410	(146,927)
Amortization of intangibles	**(122,061)**	(119,790)	(2,271)
Acquisition costs	**(280,824)**	-	(280,824)
Revaluation of earnout liability	**318,734**	-	318,734
Non-cash accretion costs	**(98,520)**	(206,958)	108,438
Non-cash fair value of derivatives	**(202,203)**	(140,828)	(61,375)
Loss before income taxes	**(188,667)**	(81,384)	(107,283)
Provision of deferred taxes	**(103,864)**	74,184	(178,048)
Provision of current taxes	**(979)**	-	(979)
Net loss attributable to the common shareholder	**(293,510)**	(7,200)	(286,310)
Unrealized foreign exchange gain (loss) on translation of foreign subsidiaries	**67,319**	(48,896)	116,215
Comprehensive loss	**$ (226,191)**	$ (56,096)	**$** (170,095)
Fully diluted loss per common share	**$ (0.006)**	$ (0.000)	$ (0.006)

Revenue in the third quarter of 2019 was $7,622,397 compared to $7,039,839 in the third quarter of 2018 an increase of 8% or $582,558.

Gross Margin was higher by $847,332 or 56% when compared to the third quarter of 2019. As a percentage of revenues, the Gross Margin Percentage improved to 31% compared to 22% in 2018. 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.

Operating expenses were higher by $655,435 or 64% mainly due to the aggregate of the following:

- Bad debt increased by $455,334 mainly due to the Chapter 11 filing of Hollister Construction Services. In addition to whatever settlement proposal is accepted by the creditors, the Company has a mechanical lien on the project and is hopeful that a portion of the bad debt can be recovered. The potential recoveries have not been reflected in the financial statements.;
- Audit fee accruals increased by $50,410 as a result acquisitions;
- Travel allowances increased by $44,144 as a result of increased sales;
- Salaries, benefits and commissions increased by $19,790 mainly due to increased commissions paid on increased sales.

Non-cash stock based compensation expense was $231,758 in the third quarter of 2019 compared to $24,783 in the third quarter of 2018. The increase of $206,975 is mainly the result of extending the expiry of 1,925,000 previously issued stock options by two years. As well, 300,000 stock options granted in the third quarter of 2019 to Bristol Capital Ltd.

Finance costs were $221,848 in the third quarter of 2019 compared to $193,868 in the same period in 2018, an increase of $27,980. The increase can be attributed to the adoption of IFRS 16 effective January 1, 2019 which recharacterizes a portion of certain costs from operating expenses to finance costs.

Other expense was $33,517 in the third quarter of 2019 compared to income of $113,410 in the third quarter of 2018. The decrease of $146,927 is largely the result of the swing in foreign exchange rates in the reporting period. An unrealized foreign exchange loss of $60,436 was recognized in the third quarter of 2019 on the following USD denominated liabilities: USD BDC Loan of $24,774 and Convertible Note of $35,662. As the Canadian dollar weakened relative to the USD from June 30, 2019 to September 30, 2019, the value of these liabilities increased, which gives rise to an unrealized foreign exchange loss. The opposite effect occurred in the third quarter of 2018 resulting in a foreign exchange gain.

Amortization of intangibles was $122,061 in the third quarter of 2019 compared to $119,790 in the third quarter of 2018 and originated from the acquisition of MOS where an intangible asset of $638,879 was attributed to the value of the sales backlog on the business combination and is being amortized to income over the period May 31, 2018 to November 30, 2019.

Acquisition costs of $280,824 were incurred in the third quarter of 2019. These costs are for the acquisition of PIGCO which closed on October 1, 2019.

The Earn out Liability for the first 12 month period ended May 31, 2019 is estimated to be $501,221 USD which is equivalent to $663,766. The previously recorded liability of $741,938 USD was adjusted to this new lower estimate and resulted in a non cash adjustment gain of $318,734 being recognized in the quarter. The $501,221 USD is due 90 days after the anniversary date or August 29, 2019 and normally accrues interest at 8% per year if not paid. A partial payment of $401,983 USD was made in third quarter of 2019. The residual does not accrue interest in this case and will be released to the Vendor subject to certain conditions being met.

Non-cash accretion was an expense of $98,520 in the third quarter of 2019 compared to $206,958 for the same period last year. The decrease in non-cash accretion expense is largely attributed to the completion of or maturity of the first 12 month tranche of the three year Earn-out Liability. Accretion expense relating to the remaining tranches of the Earn-out Liability was $77,243 and accretion on the host debt contract of the Convertible Note was $21,742. Both of which originated from the acquisition of MOS and were recorded at a discount. Accretion will end at the maturity date.

On acquisition, the Convertible Note was trifurcated into the previously discussed host debt contract and conversion and prepayment features, both of which are accounted for as derivatives and revaluated at every reporting period. Based upon the black-scholes option pricing model, the fair value of the conversion and prepayment features of the Convertible Note increased by $202,203 in the third quarter of 2019 resulting in a loss for the same amount compared to an increase of $140,828 in the third quarter of 2018 resulting in a loss in the third quarter of 2018.

Unrealized foreign exchange gains and losses on the translation of foreign subsidiaries are recognized through other comprehensive income. Both MOS and Cematrix (USA) Inc. 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 $67,319 in the third quarter of 2019. The opposite effect occurred in the third quarter of 2018 which resulted in an unrealized foreign exchange loss of $48,896.

For the nine months ending September 30, 2019 compared to the nine months ending September 30, 2018

	Nine Months Ended September 30		
	2019	2018	Change
Revenue	**$ 17,256,666**	$ 11,424,240	$ 5,832,426
Gross margin	**$ 4,722,033**	$ 2,325,877	$ 2,396,156
Operating expenses	**(3,828,604)**	(2,257,542)	(1,571,062)
Operating income	**893,429**	68,335	825,094
Non-cash stock based compensation	**(409,835)**	(41,312)	(368,523)
Finance costs	**(654,172)**	(350,693)	(303,479)
Other income	**225,972**	21,940	204,032
Amortization of intangibles	**(368,558)**	(159,720)	(208,838)
Acquisition costs	**(346,649)**	(619,723)	273,074
Revaluation of earnout liability	**464,915**	-	464,915
Non-cash accretion costs	**(388,165)**	(229,426)	(158,739)
Non-cash fair value of derivatives	**(193,081)**	(316,433)	123,352
Loss before income taxes	**(776,144)**	(1,627,032)	850,888
Provision of deferred taxes	**(91,503)**	335,787	(427,290)
Provision of current taxes	**(90,052)**	-	(90,052)
Net loss attributable to the common shareholder	**(957,699)**	(1,291,245)	333,546
Unrealized foreign exchange loss on translation of foreign subsidiaries	**(261,158)**	(9,577)	(251,581)
Comprehensive loss	**$ (1,218,857)**	$ (1,300,822)	**$** 81,965
Fully diluted loss per common share	**$ (0.021)**	$ (0.034)	$ 0.013

Revenue was $17,256,666 in the nine month period end September 30, 2019, an increase of $5,832,426 or 51%, compared to $11,424,240 recognized in the prior year.

Gross Margin was $4,722,033 in the first nine months of 2019, an increase of $2,396,156, compared to a Gross Margin of $2,325,877 in the prior year period. As a percentage of revenues, the Gross Margin Percentage improved to 27% compared to 20% in 2018.

Operating expenses were higher by $1,571,062 or 108% mainly due to the following:

- MOS operating costs increased by $564,082 because of five additional months of operations were included in 2019 compared to 2018;
- Bad debt increased by $455,334 mainly due to the Chapter 11 filing of Hollister Construction Services. In addition to whatever settlement proposal is accepted by the creditors, the Company has a mechanical lien on the project and is hopeful that a portion of the bad debt can be recovered. The potential recoveries have not been reflected in the financial statements.;
- Salaries, benefits and commissions increased by $175,364 due to the addition of a new sales representative based in Manitoba, increased commissions paid on increased sales and a temporary technician;
- The Audit fee accrual increased by $76,330 as a result of acquisitions;
- Travel allowances increased by $72,661 as a increased sales; and
- Consulting charges increased by $54,410 as a result of one time costs associated with the US OTCQB application, the BDC growth driver program and costs associated with the new CFO and MOS acquisition;

Non-cash stock based compensation was $409,835 in the first nine months of 2019 compared to $41,312 in the prior year period. The increase of $368,523 is the result of the 900,000 stock options granted in the first nine months of 2019 and the extension of 1,925,000 previously granted stock options by two years. This includes 600,000 stock options which were granted to select board members which vested immediately as they replaced an equivalent number of stock options that had expired unexercised.

Finance costs were $654,172 in the first nine months of 2019 compared to $350,693 in the prior year period. The increase of $303,479, can be largely attributed to the MOS acquisition which was financed primarily with debt. The significant increases are outlined below:

- Incremental interest on the $2,500,000 USD Convertible Note in the amount of $120,622;
- Incremental interest on the new $750,000 USD Operating Loan in the amount of $76,323;
- Incremental interest on the $1,800,000 USD BDC Loan in the amount of $71,014; and
- Incremental interest on adoption of IFRS 16 of $39,041

Other income of $225,972 was recognized in the first nine months of 2019 compared to $21,940 in the prior year period. The increase of $204,032 is largely the result of a $136,944 increase in unrealized foreign exchange gains recognized on the following USD denominated liabilities: USD BDC Loan of $66,039 and Convertible Note of $94,124. As the Canadian dollar strengthened relative to the USD from December 31, 2018 to September 30, 2019, the value of these liabilities decreased, which gives rise to an unrealized foreign exchange gain.

Amortization of intangibles was $368,558 in the first nine months of 2019 compared to $159,720 in the prior year period and originated from the acquisition of MOS where an intangible asset of $638,879 was attributed to the value of the sales backlog on the business combination and is being amortized to income over the period May 31, 2018 to November 30, 2019.

Acquisition costs were $346,649 in the first nine months of 2019. These costs relate to the acquisition of PIGCO which closed on October 1, 2019. The prior year costs of $619,723 relate to the acquisition of MOS which closed on May 31, 2018.

The Earn out Liability for the first 12 month period ended May 31, 2019 is estimated to be $501,221 USD which is equivalent to $663,766. The previously recorded liability of $851,956 USD was adjusted to this new estimate and resulted in a non cash gain of $464,915 being recognized in the current year. The $501,221 USD is due 90 days after the anniversary date or August 29, 2019 and normally accrues interest at 8% per year if not paid. A partial payment of $401,983 USD was made in third quarter of 2019. The residual does not accrue interest in this case and will be released to the Vendor subject to certain conditions being met.

Non-cash accretion was an expense of $388,165 in the nine months of 2019 compared to $229,426 for the same period last year. The increase in non-cash accretion expense is largely attributed to the Earn-out Liability of $325,705 and the host debt contract of the Convertible Note of $63,855, both of which originated from the acquisition of MOS and were recorded at a discount.

On acquisition, the Convertible Note was trifurcated into the previously discussed host debt contract and conversion and prepayment features, both of which are accounted for as derivatives and revaluated at every reporting period. Based upon the black-scholes option pricing model, the fair value of the conversion and prepayment features of the Convertible Note increased by $193,081 in the nine months of 2019 resulting in a loss for the same amount compared to an increase of $316,433 in the nine months of 2018 resulting in a loss in the nine months of 2018.

Unrealized foreign exchange gains and losses on the translation of foreign subsidiaries are recognized through other comprehensive income. Both MOS and Cematrix (USA) Inc. have a USD functional currency and as the Canadian dollar strengthened relative to the USD, the value of these assets depreciated resulting in an unrealized foreign exchange loss of $261,158 in the nine months of 2019. The same effect occurred in the nine months of 2018 which resulted in an unrealized foreign exchange loss of $9,577.

D. Selected Quarterly Financial Information

The Company's business is seasonal in nature as it follows the construction season. Typically, revenues in the second half of the year are significantly greater than the first half of the year. 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	Income (Loss) Per Share Diluted
	$	$	$	$
2019 Year				
March 31	**3,185,726**	**(999,612)**	**(0.019)**	**(0.019)**
June 30	**6,448,543**	**6,946**	**0.004**	**0.004**
September 30	**7,622,397**	**(226,191)**	**(0.006)**	**(0.006)**
	17,256,666	**(1,218,857)**	**(0.021)**	**(0.021)**
2018 Year				
March 31	1,476,468	(314,375)	(0.009)	(0.009)
June 30	2,907,933	(930,351)	(0.026)	(0.026)
September 30	7,039,839	(56,096)	(0.000)	(0.000)
December 31	6,136,476	573,009	0.004	0.004
Total for year	17,560,716	(727,813)	(0.027)	(0.027)

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 Statements of Financial Position

		September 30 2019		December 31 2018		Change
Total current assets	**$**	**9,615,902**	$	6,542,167	$	3,073,735
Total non current assets		**13,396,795**		13,879,797		(483,002)
Total assets	**$**	**23,012,697**	$	20,421,964	$	2,590,733
Current liabilities	**$**	**7,998,635**	$	6,672,199	$	1,326,436
Non current liabilities		**8,935,709**		9,004,190		(68,481)
Total liabilities	**$**	**16,934,344**	$	15,676,389	$	1,257,955
Shareholders' equity	**$**	**6,078,353**	$	4,745,575	$	1,332,778

Total current assets increased by $3,073,735. This increase in aggregate is summarized below:

- Cash increased by $665,211 (See the discussion in Section F - Consolidated Statement of Cash Flows);
- Trade and other receivables decreased by $2,298,987 as a result of the timing differences in the collections of trade receivables and increase in sales;
- Inventory increased by $86,792 in anticipation of the backlog of projects to be completed in the near term;
- Prepaids and deposits increased by $20,687 mainly due to a deposit for a new building lease that will take effect January 1, 2020; and
- Share acquisition loans increased by $2,058 as a result of $1,395 in accretion income and interest income of $663.

Total non current assets decreased by $483,002. This decrease in aggregate is summarized below:

- Property and equipment increased by $159,945 primarily as a result of adopting IFRS 16, which resulted in an increase in buildings of $643,632 and additional expenditures of $417,046 on equipment. This was offset by depreciation expense for the nine months ended September 30, 2019 of $791,164, dispositions of $42,084 and a $67,485 reduction relating to foreign exchange recognized on the translation of foreign denominated subsidiaries.
- Goodwill and intangibles assets decreased by $519,560 as a result of a $190,853 reduction relating to the translation of foreign denominated subsidiaries and $368,558 in amortization of the sales backlog, being offset by $39,851 on capitalized expenditures relating to research projects (including $9,743 of capitalized labour).
- The deferred tax asset decreased by $123,387 as a result of recording a deferred income tax expense on Canadian income during the nine months ended September 30, 2019.

Total current liabilities increased by $1,326,436. This increase in aggregate is summarized below:

- Bank overdraft decreased by $530,526 (See the discussion in Section F - Consolidated Statement of Cash Flows);
- Bank operating loan increased by $33,806 due to timing differences to fund working capital requirements in the Canadian operations;
- The US operating loan is $750,000 USD and was fully drawn on the close of the MOS acquisition. The CAD equivalent was $993,225 at September 30, 2019 a decrease of $29,925 from $1,023,150

at December 31, 2018. This reduction is accounted for in the translation of foreign denominated subsidiaries.

- Trade and other payables increased by $2,015,002 largely as a result of increased sales and timing difference in payments in the first nine months of 2019 as compared to 2018;
- Current portion of long term debt decreased by $8,977 as a result of a unrealized foreign exchange gain on the revaluation of the $1,800,000 USD BDC loan entered into by the Company on May 31, 2018.;
- Current portion of lease obligations increased by $76,319 mainly due to adopting IFRS 16 on January 1, 2019. The effect at September 30, 2019 was an increase of $122,284 relating to the current portion of a building lease.
- Current portion of the Earn-out Liability is $601,090 USD or $822,509 and originates from the acquisition of MOS.
  - The first tranche or 12 month period post close, is estimated at $501,221 USD and is calculated based upon 70% of MOS's EBITDA above $500,000 USD for the 12 month period from June 1, 2018 to May 31, 2019. Of this, $401,983 USD has been paid and the remaining balance of $99,238 USD or $131,421 will be paid subject to certain terms and conditions being met.
  - The second tranche or 12 month period post close, on a discounted basis is estimated at $521,852 USD or $691,088 and is calculated based upon 65% of MOS's EBITDA above $500,000 USD for the 12 month period from June 1, 2019 to May 31, 2020.

Total non-current liabilities decreased by $68,481. This increase in aggregate is summarized below:

- Long term debt increased by $81,627 due to an additional $319,445 drawn on BDC Loan 3 offset partially by repayments of $344,008 and unrealized foreign exchange gain of $57,064 on the revaluation of the $1,800,000 USD BDC loan entered into by the Company on May 31, 2018.
- Lease obligations increased by $413,105 due to the adoption of IFRS 16.
- Earn-out Liability is $468,861 USD or $620,912 and originated from the acquisition of MOS. The Earn-out Liability is a discounted value based upon management's estimate and represents 65% of MOS's EBITDA above $500,000 US for the 12 month period from June 1, 2020 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 trifurcated into a conversion feature, prepayment feature and a debt host contract. At September 30, 2019 the Convertible Note had an aggregate carrying value of $3,542,137. The increase of $163,745 is the result of a unrealized foreign exchange gain of $93,191 on the host debt contract and loss of $193,081 recognized on the marked to market derivatives being offset by accretion expense of $63,855. The fair value of the conversion feature increased $965,405 offsetting the increase in the fair value of the prepayment feature by $772,324 at September 30, 2019.
- The deferred tax liability decreased by $56,358 as a result of the recording a recovery of current period deferred income tax on US subsidiaries losses, which consists of MOS and Cematrix (USA) Inc., during the nine months ended September 30, 2019.

Shareholders' Equity increased by $1,332,778. This increase in aggregate is summarized below:

- Share capital increased by $886,560 as a result of 11,500,000 common shares issued as part of a non brokered private placement which closed in August 2019.
- Contributed surplus increased by $1,557,232 as a result of 12,291,000 warrants, valued at $1,255,240, being issued as a part of a non brokered private placement which closed in August 2019 and non-cash stock based compensation of $409,835 recorded in the period being partially offset by the reclassification of $107,843 to deficit relating to the expiry of options.

- Accumulated other comprehensive income decreased by $261,158 due to the unrealized foreign exchange loss on the translation of MOS and Cematrix USA for the nine months ended September 30, 2019.
- The Deficit increased by $849,856 due to the loss to common shareholders in the first nine months of $957,699 which was partially offset by the reclassification of $107,843 from contributed surplus for options expired in March 2019.

See the Consolidated Statements of Shareholders' Equity included in the Consolidated Financial Statements.

F. Consolidated Statements of Cash Flows

Comparison of the Three Months ended September 30, 2019 and September 30, 2018

The cash position of the Company at September 30, 2019 was $1,315,375 (consisting of cash in the bank of $1,318,564 net of the bank overdraft of $3,189) compared to a cash position of $673,210 (consisting of cash in the bank of $683,723 net of the bank overdraft of $10,513) at September 30, 2018. The change in cash in the third quarter of 2019 was an increase of $523,571 as compared to a increase of $622,704 in the same period of 2018. This change is outlined in the table on the next page:

	Three Months Ended September 30		
	2019	2018	Change
Cash generated from (used in) operating activities			
Before non-cash working capital adjustment	**$ 469,967**	$ 508,003	$ (38,036)
Net change in non-cash working capital items	**(1,272,141)**	88,574	(1,360,715)
	(802,174)	596,577	(1,398,751)
Cash used in investing activities	**(54,555)**	(18,970)	(35,585)
Cash generated from financing activities	**1,375,286**	51,750	1,323,536
Foreign exchange effect on cash	**5,014**	(6,653)	11,667
Increase (decrease) in cash	**523,571**	622,704	(99,133)
Cash (cash deficiency), at beginning of period	**791,804**	50,506	741,298
Cash (cash deficiency), at end of period	**$ 1,315,375**	$ 673,210	$ 642,165

- Cash generated from operating activities decreased by $1,398,751.
  - Cash flow before non cash working capital adjustments decreased by $38,036.
  - Net change in non-cash working capital items was a negative $1,360,715 as proceeds from the non-brokered private placement were used for working capital.
- Cash used in investing activities increased by $35,585.
  - Property and equipment additions were up $31,178 as the Company replaced computer equipment.
  - Intangible asset spending relating to product testing increased by $4,407. Expenditures of $16,318 (including $6,317 of capitalized internal labour) were incurred in the third quarter of 2019 compared to $11,911 (including $1,911 of capitalized internal labour) in the third quarter of 2018.
- Cash generated from financing activities increased by $1,323,536.
  - In 2019 the Company generated $1,375,286 from financing activities. The following sources of financing were received by the Company: The private placement generated net proceeds of $2,141,800 from the issuance of common shares and share purchase warrants and the demand operating loan provided $167,798. This was offset by repayments of $534,436 on the Earn-out Liability, $344,008 on long term debt and $55,868 on lease obligations.

- In 2018 the Company generated $51,750 from financing activities. The following sources of financing were received by the Company: The private placement generated net proceeds of $539,601 from the issuance of common shares and share purchase warrants and $43,500 was received on the exercise of stock options. This was offset by repayments of $305,791 on the demand operating loan, $202,187 on long term debt and $23,373 on lease obligations.

Comparison of the Nine Months ended September 30, 2019 and September 30, 2018

The cash position of the Company at September 30, 2019 was $1,315,375 (consisting of cash in the bank of $1,318,564 net of the bank overdraft of $3,189) compared to a cash position of $673,210 (consisting of cash in the bank of $683,723 net of the bank overdraft of $10,513) at September 30, 2018. The change in cash position in the period ending September 30, 2019 was an increase of $1,195,727 as compared to a increase of $685,330 in the same period of 2018. This change is outlined in the table on the next page:

	Nine Months Ended September 30		
	2019	2018	Change
Cash generated from (used in) operating activities			
Before non-cash working capital adjustment	**$ 659,363**	$ (443,226)	$ 1,102,589
Net change in non-cash working capital items	**(501,548)**	(200,064)	(301,484)
	157,815	(643,290)	801,105
Cash used in investing activities	**(415,897)**	(2,905,623)	2,489,726
Cash generated from financing activities	**1,459,059**	4,236,933	(2,777,874)
Foreign exchange effect on cash	**(5,240)**	(2,690)	(2,550)
Increase (decrease) in cash	**1,195,737**	685,330	510,407
Cash (cash deficiency), at beginning of period	**119,638**	(12,120)	131,758
Cash (cash deficiency), at end of period	**$ 1,315,375**	$ 673,210	$ 642,165

- Cash generated from operating activities increased by $801,105.
  - Cash flow before non cash working capital adjustments increased by $1,102,589. The increase was due to the increase in the income before taxes of $333,546, an increase in non-cash items for depreciation and amortization expense, accretion offset partially by fair value adjustments on derivatives.
  - Net change in non-cash working capital items was a negative $301,484 as proceeds from the non-brokered private placement were used for working capital.
- Cash used in investing activities decreased by $2,489,726.
  - Property and equipment additions increased $399,144 as the Company purchased a new truck and upgrades were made to an existing wet mix unit;
  - Proceeds on the sale of equipment were $41,000 as three vehicles were sold in 2019;
  - Intangible asset spending relating to product testing decreased by $39,885. Expenditures of $39,851 (including $9,779 of capitalized internal labour) were incurred in the nine months of 2019 compared to $79,737 (including $24,237 of capitalized internal labour) in the nine months of 2018;
  - Absence of MOS acquisition on May 31, 2018 for net cash of $2,807,985
- Cash generated from financing activities decreased by $2,777,874.
  - In 2019 the Company received $1,459,059 from financing activities. The following sources of financing were received by the Company: The private placement generated net proceeds of $2,141,800 from the issuance of common shares and share purchase warrants, $319,445 was received on an equipment loan provided by the BDC and the

demand operating loan provided $33,806. This was offset by repayments of $534,436 on the Earn-out Liability, $344,008 on long term debt and $157,548 on lease obligations.

- In 2018 the Company generated $4,236,933 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 private placement generated net proceeds of $1,267,745 from the issuance of common shares and share purchase warrants, the demand operating loan provided $877,118 and government grants of $16,775 were received. This was offset by repayments of $202,187 on long term debt and $55,138 on lease obligations.

G. Liquidity and Capital Resources

Liquidity

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

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, $1,500,000 of the bank operating loan was available at September 30, 2019 with $1,239,249 being drawn.

The bank operating loan bears interest at 5.95% and is set at the greater of 4.7% or 2.0% above the CWB prime lending rate.

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 leases. EBITDA will be calculated excluding the extraordinary items (acquisition cost, gain/loss on disposition of assets) and significant non-cash items (stock-based compensation, revaluation of the earn out liability, mark to market adjustments, unrealized foreign exchange gains and losses);

- 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 leases divided by the net tangible worth. The definition of debt excludes the convertible debenture and earn-out liability. Tangible net worth is defined as equity and includes the value of the convertible debenture.

- Debt to tangible net worth ratio not greater than 3.00, tested no less than monthly. This is similar to the covenant described above with the exception that value of Goodwill is deducted or excluded from the definition of tangible net worth.

- 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. Earn-out liabilities due to its contingent nature and vendor payable to MOS, as subordinated, will not be considered as Liabilities.

On June 4, 2019, the Bank renewed the operating loan and provided a general tolerance for its covenants until December 31, 2019.

At September 30, 2019, the Company was compliant with these covenants.

The Company, through its wholly owned subsidiary MOS, has a $750,000 USD operating loan which is fully drawn. The loan is repayable on January 31, 2020 and bears an annual interest rate of 14%, payable monthly. At September 30, 2019 the Canadian equivalent of this loan was $993,225.

At September 30, 2019, the Company had Net Working Capital of $4,163,364 compared to $3,771,900 at December 31, 2018, reflecting an increase in activity in the nine months of 2019 in comparison to the nine months of 2018.

For the nine months ended September 30, 2019, the Company reported positive cash flow from operations before net change in non-cash working capital items of $659,363 and a positive EBITDA of $1,749,815.

Management continues to closely monitor discretionary costs.

The realization of Net Working Capital, the availability of the CWB bank operating loan and the successful completion of sales contracts that are in place provide the necessary liquidity to carry the Company's operations through 2019 and 2020. Ongoing liquidity beyond this, is dependent on the Company achieving additional sales and profitable results.

Capital resources

Building additional productive capacity in future years is dependent on the Company generating the required funds from operations or new debt or equity financing, however, there is no need for the Company to add additional capacity at this time. In the future, if the Company needs to add production capacity, 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 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 Condensed Consolidated Financial Statements, was $16,655,752 at September 30, 2019 as compared to $14,756,528 at December 31, 2018 (see Section H. Consolidated Statements of Financial Position for details).

H. Off Balance Sheet Arrangements

There were no off balance sheet arrangements at September 30, 2019 or December 31, 2018.

I. Transactions with Related Parties

A director of the Company was a partner at the Companies Law firm. During the three and nine months ended September 30, 2019, the Company incurred legal fees of $77,277 and $111,484 ($161,849 was incurred for the same period ended September 30, 2018) and $66,045 is outstanding in trade and other payables as at September 30, 2019 (December 31, 2018 - $4,347). In February 2019, the director is no longer a partner at the Companies Law firm.

Ed Weiner is currently a director of the Company and holds half of the US operating loan ($993,225 at September 30, 2019), half of the earn-out liability ($1,443,421 at September 30, 2019) and half of the convertible note ($3,542,137 at September 30, 2019). The Vendor is also a consultant and is entitled to an annual consulting fee of $20,000 USD over the term of the agreement which is 3 years from May 31, 2018.

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, 2018. 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 condensed consolidated financial statements for the year ended December 31, 2018. There have been no changes since that date other than what is outlined below.

Effective January 1, 2019, the Company adopted IFRS 16 Leases (IFRS 16) using the modified retrospective approach. The new standard requires a lessee to recognize a liability to make lease payments (the lease liabilities) and an asset to recognize the right to use the underlying asset during the lease term (the lease assets) in the statement of financial position.

Comparative information has not been restated and continues to be reported under IAS 17 Leases (IAS 17) The Company used the practical expedient not to reassess whether a contract is or contains a lease at January 1, 2019. Instead, the Company applied IFRS 16 only to contracts previously identified as leases under IAS 17.

The Company also used the following practical expedients to account for leases at January 1, 2019:

- Applied recognition exemptions for operating leases when the underlying asset was of low value or the lease term ends within 12 months. The payments associated with these leases are recognized as an expense.
- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Relied on the Company's assessment of whether leases are onerous immediately before January 1, 2019, and adjusted the lease asset by this amount.
- Excluded initial direct costs when measuring the lease asset.
- Used hindsight to determine the lease term when the contract contained options to extend or terminate the lease.

These policies apply to contracts entered into or changed on or after January 1, 2019.

A contract is a lease or contains a lease if it conveys the right to control the use of an asset for a time period in exchange for consideration. To identify a lease, the Company (1) considers whether an explicit or implicit asset is specified in the contract and (2) determines whether the Company obtains substantially all the economic benefits from the use of the underlying asset by assessing numerous factors, including but not limited to substitution rights and the right to determine how and for what purpose the asset is used.

When assessing the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option or to not exercise a termination option. This judgment is based on factors such as contract rates compared to market rates, economic reasons, significance of leasehold improvements, termination and relocation costs, installation of specialized assets, residual value guarantees, and any sublease term.

The Company has elected not to recognize lease assets and lease liabilities for low-value assets or short-term leases with a term of 12 months or less. These lease payments are recognized in expenses over the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid. The Company elected to not separate non-lease components from lease components and to account for the non-lease and lease components as a single lease component. Lease payments generally include fixed payments less any lease incentives receivable.

The lease liability is discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company estimates the incremental borrowing rate based on the lease term, collateral assumptions, and the economic environment in which the lease is denominated.

The lease liability is subsequently measured at amortized cost using the effective interest method. The lease liability is remeasured when the expected lease payments change as a result of new assessments of contractual options and residual value guarantees.

The lease asset is recognized at the present value of the liability at the commencement date of the lease less any incentives received from the lessor. Added to the lease asset are initial direct costs, payments made before the commencement date, and estimated restoration costs. The lease asset is subsequently depreciated on a straight-line basis from the commencement date to the earlier of the end of the useful life of the lease asset or the end of the lease term. The lease asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The recognized right-of-use assets relate to the buildings. Right-of-use assets were measured at the amount equal to the lease liability, except for onerous contracts.

The change in accounting policy resulted in an increase in property and equipment and lease obligations of $643,632 as follows:

Operating lease commitments disclosed at December 31, 2018	**$**	**1,085,422**
Less: short-term lease exemption		**(285,868)**
Undiscounted lease payments		**799,554**
Discount effect at January 1, 2019		**(155,922)**
	$	**643,632**

Consolidated net income did not change materially as a result of the adoption of IFRS 16.

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 (O) – Significant Accounting Policies – New Accounting Policies – IFRS 9 Financial Instruments in the audited consolidated financial statements at December 31, 2018 and Note 26 – 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 Financings, which had a balance of $3,024,411 outstanding at September 30, 2019 and the bank operating loan, which had a balance at September 30, 2019 of $1,239,249 are subject to floating market rates. Based on the floating rate debt outstanding as at September 30, 2019, a 1% increase/decrease in interest rates would result in a decrease/increase in net loss attributable to common shareholders of approximately $31,200.

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.

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. The credit risk on share acquisition loans is minimal as the Company can cancel the common shares issued to these individuals in the event of non payment. At September 30, 2019, 15 customers accounted for approximately 67.04% of trade receivables (at December 31, 2018, 6 customers accounted for approximately 51% of trade receivables). For the nine months ended September 30, 2019, 15 customers each accounted for over 66,02% of revenue. At September 30, 2019, the Company had $1,318,564 of cash and cash equivalents (2018 - $653,353), an $80,000 term deposit (2018 - $80,000) and $45,932 (2018 - $43,874) of fair valued share acquisition loans that are outstanding with two officers, and a former officer of the Company.

Liquidity Risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations. 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, 2019 and December 31, 2018 based on contractual undiscounted payments.

	Less than 1 year	**1 to 2 years**	**2 to 6 years**	**Total**
As at September 30, 2019				
Bank overdraft	**$ 3,189**	**$ -**	**$ -**	**$ 3,189**
Bank operating loan	**1,239,249**	**-**	**-**	**1,239,249**
US operating loan	**993,225**	**-**	**-**	**993,225**
Trade and other payables	**4,008,042**	**-**	**-**	**4,008,042**
Long-term debt	**688,430**	**721,044**	**2,614,937**	**4,024,411**
Lease obligations	**243,991**	**226,802**	**307,584**	**778,377**
Earn-out liability	**822,509**	**620,912**	**-**	**1,443,421**
Convertible note	**-**	**3,542,137**	**-**	**3,542,137**
	$ 7,998,635	**$ 5,110,895**	**$ 2,922,521**	**$ 16,032,051**

	Less than 1 year	1 to 2 years	2 to 6 years	Total
As at December 31, 2018				
Bank overdraft	$ 533,715	$ -	$ -	$ 533,715
Bank operating loan	1,205,443	-	-	1,205,443
US operating loan	1,023,150	-	-	1,023,150
Trade and other payables	1,993,040	-	-	1,993,040
Long-term debt	697,407	2,004,233	1,413,375	4,115,015
Lease obligations	167,672	118,771	2,510	288,953
Earn-out liability	1,051,772	594,304	533,954	2,180,030
Convertible note	-	-	3,378,392	3,378,392
	$ 6,672,199	$ 2,717,308	$ 5,328,231	$ 14,717,738

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 balances denominated in US dollars ("USD") and the operations of its US 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, 2019 and December 31, 2018 the following balances were denominated in USD:

		September 30, 2019		December 31, 2018
Cash and cash equivalents	**$**	**571,392**	$	477,244
Trade and other receivables	**$**	**2,393,806**	$	1,355,817
Prepaid expenses and deposits	**$**	**33,979**	$	62,916
Trade and other payables	**$**	**1,026,978**	$	1,148,915
US operating loan	**$**	**750,000**	$	750,000
Long term debt	**$**	**1,537,500**	$	1,650,000
Lease obligations	**$**	**463,136**	$	49,242
Earn-out liability	**$**	**1,089,950**	$	1,598,028
Convertible note	**$**	**2,674,724**	$	2,221,772

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 September 30, 2019 a 1% increase/decrease of the USD against the Canadian dollar would result in an increase/decrease in total comprehensive loss of approximately $44,000.

M. Disclosure of Outstanding Share Data

As at September 30, 2019 and November 6, 2019, the following is a description of the outstanding equity securities and convertible securities previously issued by the Company

	Authorized	**Outstanding as at September 30, 2019**	**Outstanding as at November 6, 2019**
Voting or equity securities issued and outstanding	Unlimited Common Shares	55,980,769 Common Shares	59,286,019 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 4,520,000 Common Shares at an exercise price at between $0.18 - $0.43	Stock options to acquire 4,820,000 Common Shares at an exercise price at between $0.18 - $0.43
Securities convertible or exercisable into voting or equity securities – share purchase warrants	As approved by the board	Share purchase warrants to acquire 15,554,177 Common Shares at an exercise price at between $0.30 - $0.35	Share purchase warrants to acquire 15,554,177 Common Shares at an exercise price at between $0.30 - $0.35

N. Outlook

The outlook for 2019 continues to be positive and we reiterate our revenue forecast of $25 million. The year started a little slower than we anticipated, but with the strong results in the second and third quarters, we have confidence in our ability to meet our targets and a return to being cash flow positive.

- Strength of the third quarter with $7.6 million in revenues and $1.0 million in EBITDA
- Validation of the new quarterly norm as the third quarter of 2019 is consistent with:
  - Q2 2019 ($6.4 million in revenues and $1.0 million in EBITDA);
  - Q4 2018 ($6.1 million in revenues and $1.2 million in EBITDA); and
  - Q3 2018 ($7.0 million in revenues and $0.7 million in EBITDA).
- Contracts and verbally award projects continues to grow with $76.9 million to date, of which $48.8 million is scheduled for 2020 or 2021.

The financial position and liquidity of the company continues to improve based upon the follow:

- A $2.3 million private placement was fully subscribed to and closed on August 26, 2019. The proceeds were used primarily to improve the balance sheet and to a lesser extent finance extraneous costs relating to the PIGCO acquisition as the cash component of the acquisition received by the vendor was financed entirely with a $2.8 million USD loan with the Business Development Bank of Canada.
- The $1 million secured debenture with a bullet repayment set for July 11, 2020 was termed out over a period of 5 years with the first annual principal repayment of $200,000 coming due on January 1, 2021 and ending on January 1, 2025.
- The cash position of the Company at September 30, 2019 was $1,315,375 (consisting of cash in the bank of $1,318,564 net of the bank overdraft of $3,189);
- Funds flow from operations was $659,363 compared to the negative $443,226 in the prior year period;
- The $750,000 USD operating loan, with a maturity date of September 30, 2019 was extended to January 31, 2020.

The acquisition of PIGCO closed on October 1, 2019 and is the next step change in the growth of CEMATRIX. With the acquisition complete, run rate revenues are expected to be in excess of $45 million annually. Not only will the acquisition improve the financial results of CEMATRIX through operating leverage and economies of scale, the quarterly revenue profile will change as the tunnel market segment, which PIGCO is a significant player, is less susceptible to seasonality.

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Form 51-102F1 - Management’s Discussion & Analysis
For the Three and Nine Months Ended September 30, 2019

Appendix A – Forward Looking Statements

The forward-looking statements in the MD&A for the three and nine months ending September 30, 2019 are outlined below:

General

There are a number of statements in the MD&A which refer to “will”, “expect“, “believes”, “anticipate”, “should”, “indicates” and “forecasting“.

The foregoing statements contains forward-looking statements which are based on sales forecasts prepared for 2019; sales forecasts include work which is under contract for 2019, 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 2019 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), 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 (Loss):
Income / (loss) 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 minus trade and other payables.

EBITDA
Earnings before interest, taxes, depreciation, amortization, non cash stock based compensation, non cash unrealized foreign exchange gains (loss), non cash revaluation of derivatives, non cash revaluation of earn-out liabilities and business acquisition costs.

Funds Flow from Operations
Cash generated from (used in) operating activities before net change in non-cash working capital items.