# CEMATRIX CORPORATION
## Consolidated Financial Statements
*(in Canadian dollars)*
*December 31, 2018*

To the Shareholders:

## CEMATRIX CORPORATION

Management has responsibility for preparing the accompanying consolidated financial statements. The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards. When alternative methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgement. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects. Management has developed and maintains appropriate accounting and systems of internal control designed to provide reasonable assurance that reliable and relevant financial information is produced. In addition, programs of proper business conduct and risk management have been implemented to protect the Company's assets and operations. Policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or misuse and financial records are properly maintained to provide reliable financial information for the preparation of the consolidated financial statements.

The Board of Directors (the "Board”) is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out these responsibilities principally through the Audit Committee (the "Committee”), which includes two independent directors.

The Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Company's external auditors. The Committee reviews the consolidated financial statements and the external auditors’ report thereon and reports its findings to the Board for approval.

MNP LLP, an independent firm of Chartered Accountants is appointed by the shareholders to audit the consolidated financial statements and to report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

April 1, 2019

*Signed “James Chong”* Chief Financial Officer
**James Chong, CPA, CA**

# Independent Auditor's Report

To the Shareholders of Cematrix Corporation:

**Opinion**

We have audited the consolidated financial statements of Cematrix Corporation and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017, and the consolidated statements of loss and other comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

**Basis for Opinion**

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Other Information**

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Elena Ruttan.

Calgary, Alberta

MNP LLP

April 1, 2019

Chartered Professional Accountants

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# CEMATRIX CORPORATION

## Consolidated Statements of Financial Position

*For the years ended December 31*
*(in Canadian Dollars)*

| | | 2018 | | 2017 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | $ | **653,353** | $ | 42,933 |
| Term deposit | | **80,000** | | 80,000 |
| Trade and other receivables *(note 6)* | | **5,175,857** | | 871,364 |
| Inventory *(note 7)* | | **370,137** | | 444,981 |
| Prepaid expenses and deposits | | **218,946** | | 107,374 |
| Current portion of share acquisition loans *(note 8)* | | **43,874** | | 27,611 |
| | | **6,542,167** | | 1,574,263 |
| Non Current Assets | | | | |
| Share acquisition loans *(note 8)* | | **-** | | 20,756 |
| Property and equipment *(note 9)* | | **5,451,930** | | 3,209,391 |
| Goodwill and intangibles *(note 10)* | | **7,284,567** | | 639,312 |
| Deferred tax asset *(note 22)* | | **1,143,300** | | 1,086,340 |
| | | **13,879,797** | | 4,955,799 |
| **Total Assets** | $ | **20,421,964** | $ | 6,530,062 |
| | | | | |
| **LIABILITIES and EQUITY** | | | | |
| Current Liabilities | | | | |
| Bank overdraft | $ | **533,715** | $ | 55,053 |
| Bank operating loan *(note 11)* | | **1,205,443** | | 66,399 |
| US operating loan *(note 12)* | | **1,023,150** | | - |
| Trade and other payables *(note 13)* | | **1,993,040** | | 569,364 |
| Current portion of long term debt *(note 14)* | | **697,407** | | 349,142 |
| Current portion of finance lease obligations *(note 15)* | | **167,672** | | 62,606 |
| Current portion of earn-out liability *(note 16)* | | **1,051,772** | | - |
| | | **6,672,199** | | 1,102,564 |
| Non Current Liabilities | | | | |
| Long term debt *(note 14)* | | **3,417,608** | | 1,864,085 |
| Finance lease obligations *(note 15)* | | **121,281** | | 178,468 |
| Earn-out liability *(note 16)* | | **1,128,258** | | - |
| Convertible note *(note 17)* | | **3,378,392** | | - |
| Deferred tax liability (note 22) | | **958,651** | | - |
| | | **9,004,190** | | 2,042,553 |
| **Total Liabilities** | | **15,676,389** | | 3,145,117 |
| **SHAREHOLDERS' EQUITY** | | | | |
| Share capital *(note 18)* | | **9,140,676** | | 7,495,530 |
| Contributed surplus | | **1,333,448** | | 903,153 |
| Accumulated other comprehensive loss | | **327,215** | | (36,947) |
| Deficit | | **(6,055,764)** | | (4,976,791) |
| **Total Shareholders' Equity** | | **4,745,575** | | 3,384,945 |
| **Total Liabilities and Shareholders' Equity** | $ | **20,421,964** | $ | 6,530,062 |

**Approved on behalf of the Board**

*Signed "Jeffrey Kendrick"* **Director**

*Signed "Steve Bjornson"* **Director**

*The accompanying notes are an integral part of these consolidated financial statements.*

# CEMATRIX CORPORATION

## Consolidated Statements of Loss and Comprehensive Loss

*For the years ended December 31*
*(in Canadian Dollars)*

| | | 2018 | | 2017 |
|---|---|---|---|---|
| **Revenue** *(note 30)* | **$** | **17,560,716** | $ | 7,713,906 |
| **Cost of sales** *(note 19)* | | **(13,214,516)** | | (6,866,103) |
| **Gross margin** | | **4,346,200** | | 847,803 |
| **Operating expenses** | | | | |
| General and administrative | | **(1,982,229)** | | (1,131,129) |
| Sales, marketing and engineering | | **(1,656,803)** | | (1,100,247) |
| **Total operating expenses** | | **(3,639,032)** | | (2,231,376) |
| **Operating income (loss)** | | **707,168** | | (1,383,573) |
| Non-cash stock based compensation *(note 24)* | | **(85,145)** | | 6,737 |
| Finance costs *(note 20)* | | **(549,284)** | | (212,650) |
| Other income (expenses) *(note 21)* | | **(222,501)** | | 45,572 |
| **Income (loss) before other items** | | **(149,762)** | | (1,543,914) |
| Business acquisition costs *(note 5)* | | **(619,723)** | | - |
| Accretion costs *(note 20)* | | **(284,859)** | | 5,160 |
| Revaluation of earn-out liability *(note 16)* | | **(305,031)** | | - |
| Non-cash fair value of derivatives *(note 17)* | | **65,257** | | - |
| **Loss before income taxes** | | **(1,294,118)** | | (1,538,754) |
| Recovery of deferred taxes *(note 22)* | | **202,143** | | 353,553 |
| **Net loss attributable to the common shareholders** | | **(1,091,975)** | | (1,185,201) |
| **Other comprehensive income** | | | | |
| Items that may be reclassified subsequent to profit or loss: | | | | |
| Unrealized foreign exchange gain on translation of foreign subsidiaries | | **364,162** | | 4,658 |
| **Total comprehensive loss** | **$** | **(727,813)** | $ | (1,180,543) |
| **Loss per common share** *(note 23)* | | | | |
| Basic | **$** | **(0.027)** | $ | (0.034) |
| Diluted | **$** | **(0.027)** | $ | (0.034) |
| **Weighted average number of common shares** *(note 23)* | | | | |
| Basic | | **39,854,633** | | 34,475,994 |
| Diluted | | **39,854,633** | | 34,475,994 |

*The accompanying notes are an integral part of these consolidated financial statements.*

# CEMATRIX CORPORATION
## Consolidated Statements of Changes in Shareholders' Equity
*For the years ended December 31*
*(in Canadian Dollars)*

| | | Share Capital | | Contributed Surplus | Accumulated other Comprehensive income (loss) | | Deficit | | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|---|---|
| Balance at December 31, 2016 | $ | 7,495,530 | $ | 909,890 | (41,605) | $ | (3,791,590) | $ | 4,572,225 |
| Non-cash stock based compensation *(note 24)* | | - | | (6,737) | - | | - | | (6,737) |
| Net loss attributable to common shareholders | | - | | - | - | | (1,185,201) | | (1,185,201) |
| Unrealized foreign exchange gain on translation of foreign subsidiary | | - | | - | 4,658 | | - | | 4,658 |
| Balance at December 31, 2017 | $ | 7,495,530 | $ | 903,153 | (36,947) | $ | (4,976,791) | $ | 3,384,945 |
| | | | | | | | | | |
| **Balance at December 31, 2017** | **$** | **7,495,530** | **$** | **903,153** | **(36,947)** | **$** | **(4,976,791)** | **$** | **3,384,945** |
| **Common shares issuance *(note 18)*** | | **779,053** | | **-** | **-** | | **-** | | **779,053** |
| **Reclassification of contributed surplus to share capital *(note 18)*** | | **41,922** | | **(41,922)** | **-** | | **-** | | **-** |
| **Non-cash stock based compensation *(note 24)*** | | **-** | | **85,145** | **-** | | **-** | | **85,145** |
| **Private placement *(note 18)*** | | **824,171** | | **400,074** | **-** | | **-** | | **1,224,245** |
| **Reclassification of contributed surplus to deficit *(note 24)*** | | **-** | | **(13,002)** | **-** | | **13,002** | | **-** |
| **Net loss attributable to common shareholders** | | **-** | | **-** | **-** | | **(1,091,975)** | | **(1,091,975)** |
| **Unrealized foreign exchange gain on translation of foreign subsidiaries** | | **-** | | **-** | **364,162** | | **-** | | **364,162** |
| **Balance at December 31, 2018** | **$** | **9,140,676** | **$** | **1,333,448** | **327,215** | **$** | **(6,055,764)** | **$** | **4,745,575** |

*The accompanying notes are an integral part of these consolidated financial statements.*

## CEMATRIX CORPORATION
### Consolidated Statements of Cash Flows
*For the years ended December 31*
*(in Canadian Dollars*

| | | 2018 | | 2017 |
|---|---|---|---|---|
| **Cash generated from (used in):** | | | | |
| **Operating activities** | | | | |
| Net loss attributable to common shareholders | $ | **(1,091,975)** | $ | (1,185,201) |
| Add (deduct) non-cash items | | | | |
| Recovery of deferred taxes *(note 22)* | | **(202,143)** | | (353,553) |
| Depreciation and amortization *(note 9) (note 10)* | | **963,812** | | 453,961 |
| Non-cash stock based compensation *(note 24)* | | **85,145** | | (6,737) |
| Loss on sale of equipment | | **-** | | 6,301 |
| Unrealized foreign exchange losses *(note 21)* | | **273,383** | | - |
| Non-cash accretion of convertible debenture and earn-out *(note 20)* | | **288,435** | | - |
| Non-cash accretion of share acquisition loans *(note 20)* | | **(3,576)** | | (5,160) |
| Non-cash fair value of adjustment in derivative liability *(note 17)* | | **(65,257)** | | - |
| Non-cash revaluation of earn-out liability *(note 16)* | | **305,031** | | - |
| Non-cash interest on share acquisition loans *(note 20)* | | **(494)** | | - |
| | | **552,361** | | (1,090,389) |
| **Net change in non-cash working capital items** *(note 25)* | | **(1,653,358)** | | 1,344,792 |
| **Cash generated from (used in) operating activities** | | **(1,100,997)** | | 254,403 |
| **Investing activities** | | | | |
| Purchase of property and equipment *(note 9)* | | **(33,229)** | | (220,548) |
| Proceeds on sale of property and equipment *(note 9)* | | **-** | | 12,300 |
| Purchase of intangibles *(note 10)* | | **(91,767)** | | (153,896) |
| Net cash paid on acquisition *(note 5)* | | **(2,807,985)** | | - |
| Repayment of share acquisition loans *(note 8)* | | **8,563** | | 14,063 |
| Net cash used in investing activities | | **(2,924,418)** | | (348,081) |
| **Financing activities** | | | | |
| Proceeds from bank operating loan *(note 11)* | | **1,139,044** | | 66,399 |
| Proceeds from long term debt *(note 14)* | | **2,332,620** | | 280,555 |
| Proceeds from government grants on intangibles *(note 10)* | | **16,775** | | 51,596 |
| Repayment of finance lease obligations | | **(81,358)** | | (68,961) |
| Repayment of long term debt *(note 14)* | | **(545,132)** | | (303,822) |
| Proceeds from private placement, net of costs *(note 18)* | | **1,224,245** | | - |
| Issue of common shares *(note 18)* | | **43,500** | | - |
| **Cash generated from financing activities** | | **4,129,694** | | 25,767 |
| **Foreign exchange effect on cash** | | **27,479** | | 4,658 |
| **Increase (decrease) in cash** | | **131,758** | | (63,253) |
| **Cash (Cash Deficiency), beginning of year** | | **(12,120)** | | 51,133 |
| **Cash (Cash Deficiency), end of year** | | **119,638** | | (12,120) |
| **Cash (Cash Deficiency)** | | | | |
| **Cash and cash equivalents** | | **653,353** | | 42,933 |
| **Bank overdraft** | | **(533,715)** | | (55,053) |
| | **$** | **119,638** | $ | (12,120) |
| **Supplemental Information** | | | | |
| **Finance costs paid during the period** | **$** | **493,989** | $ | 209,869 |

*The accompanying notes are an integral part of these consolidated financial statements.*

## 1. Corporate information

CEMATRIX Corporation ("CEMATRIX" or the "Company") is a limited company incorporated in the province of Alberta, Canada whose common shares are publicly traded on the TSX venture exchange under the symbol "cvx.v". It is domiciled in Canada with its registered office at 5440 - 53rd Street S.E., Calgary, Alberta, Canada.

Through its wholly-owned subsidiaries, MixOnSite USA, Inc. ("MOS") and CEMATRIX (Canada) Inc. and its subsidiaries CEMATRIX (USA) Inc. and CEMATRIX (Calgary) Ltd., the Company is a manufacturer and supplier of cellular concrete products with applications in a variety of markets. The current market focus is in the construction market for infrastructure in Western Canada and Ontario and on a selective basis in Quebec, the Northwest Territories and the United States of America (U.S.) and oil and gas construction projects in Western Canada.

The consolidated financial statements of the Company for the year ended December 31, 2018 were authorized for issue in accordance with a resolution of the Board of Directors on April 1, 2019.

## 2. Basis of preparation

***Statement of compliance***
These consolidated financial statements for the year ended December 31, 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Reporting Interpretation Committee ("IFRIC").

***Basis of measurement***
These consolidated financial statements were prepared on a going concern basis under the historical cost convention except for share-based payment transactions and certain financial instruments which are measured at fair value.

***Use of estimates and judgements***
The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

***Functional and presentation currency***
These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. The functional currency of CEMATRIX (USA) Inc. and MOS is U.S. dollars ("USD").

## 3. Significant accounting judgements, estimates and assumptions

The preparation of the 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 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.

**3. Significant accounting judgements, estimates and assumptions** *(continued)*

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 discussed below:

***A) Impairment of non-financial assets***
When an impairment test is performed on an asset or a cash generating unit ("CGU"), management estimates the recoverable amount of the asset or CGU based on its fair value less costs of disposal ("FVLCD") or its value in use ("VIU"). These estimates are based on valuation models requiring the use of a number of assumptions such as forecasts of future cash flows, gross margin, pre-tax discount rate (weighted average cost of capital or "WACC")and perpetual growth rate. These assumptions have a significant impact on the results of impairment tests and on the impairment charge (if required) recorded in the consolidated statement of loss and comprehensive loss. A description of key assumptions used in the impairment tests and a sensitivity analysis of recoverable amounts are presented in note 10.

***B) Non-cash stock based compensation***
The Company measures the cost of non-cash stock based compensation transactions with employees by reference to the fair value of the equity instruments. Estimating fair value for non-cash stock based compensation transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, forfeiture rate, volatility and dividend yield of the share option. The Company measures the cost of non-cash stock based compensation transactions with consultants by reference to the fair value of the services to be performed.

***C) Taxes***
Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable earnings will be available against which the losses can be utilized. Significant estimates are required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable earnings together with future tax planning strategies.

***D) Fair value of financial instruments***
The fair value of financial instruments is determined wherever possible based on observable market data. If not available, the Company uses third-party models, independent price publications, market exchanges, investment dealer quotes and valuation methodologies that utilize observable data. Actual values may significantly differ from these estimates.

***E) Useful life of property and equipment and intangible assets***
Depreciation and amortization are calculated using a systematic and rational basis, which are based upon an estimate of each assets useful life and residual value. The estimated useful life and residual value chosen are the Company's best estimate of such and are based on industry norms, historical experience, market conditions and other estimates that consider the period and distribution of future cash inflows.

## 3. Significant accounting judgements, estimates and assumptions *(continued)*

### *F) Identification of CGU's*

A CGU is defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The allocation of assets into CGUs requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, similar exposure to market risks, shared infrastructures, and the way in which management monitors the operations. Management has determined that the appropriate CGU's for the Company are CEMATRIX (Canada) Inc. and MOS.

### *G) Business acquisitions*

The Company uses judgment in applying the acquisition method of accounting for business acquisitions and estimates to value identifiable assets and liabilities at the acquisition date. The Company may engage independent third parties to determine the fair value of property, plant and equipment, and intangible assets. Estimates are used to determine cash flow projections, including the period of future benefit, and future growth and discount rates, among other factors. The values placed on the acquired assets and liabilities assumed affect the amount of goodwill recorded on an acquisition.

### *H) Going Concern*

The Company has experienced lower than planned revenue combined with operating losses. Management has assessed and concluded that the going concern assumption is appropriate for a period of at least twelve months following the end of the reporting period. Management applied significant judgement in arriving at this conclusion including:

- The amount of new sales orders and total revenue to be generated to provide sufficient cash flow to continue to fund operations and other committed expenditures;
- The timing of generating those new sales and the timing of the related cash flow;
- The ability to draw upon existing financing facilities to support ongoing operations; and
- The assessment of potentially discretionary expenditures that could be delayed in order to manage cash flows.

Given the judgement involved, actual results may lead to a materially different outcome.

## 4. Significant accounting policies

The significant accounting policies of the Company are outlined on the following pages:

### *A) Basis of consolidation*

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, CEMATRIX (Canada) Inc. and its subsidiaries: CEMATRIX (Calgary) Ltd. (100% owned), CEMATRIX (USA) Inc. (99.99% owned) and MOS (100% owned). Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same period as the parent company, using consistent accounting policies. The Company has consolidated the assets, liabilities, revenues and expenses of its subsidiaries after the elimination of inter-company transactions and balances.

### *B) Cash and cash equivalents*

Cash and cash equivalents include short-term investments with original maturities of three months or less which are considered to be cash equivalents and are recorded at cost, which approximates fair market value.

**4. Significant accounting policies** *(continued)*

***C) Inventory***

Inventory is valued at the lower of cost and net realizable value. Cost is determined by the weighted average method. Net realizable value is the estimated selling price in the ordinary course of business. Inventory consists mainly of foaming agent used in the production of the Company's product, cellular concrete. It also includes marketing materials. Inventory is reviewed on a regular basis to ensure the carrying value does not exceed net realizable value. If the carrying value exceeds net realizable value, a write-down is recognized immediately. The write-down may be reversed in a subsequent period if the circumstances which caused it no longer exist.

***D) Property and equipment***

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. When significant parts of property and equipment are required to be replaced in intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciation, respectively. All other repair and maintenance costs are recognized in the consolidated statement of loss and comprehensive loss as incurred.

Depreciation is calculated on a straight-line basis to recognize the cost less estimated residual value over the estimated useful life of the assets as follows**:**

| | |
|---|---|
| Equipment and cellular material processors | 3-20 years |
| Vehicles | 7-15 years |
| Computer equipment and software | 5-10 years |
| Furniture and fixtures | 10 years |
| Useful life of leased vehicles and equipment | 5-8 years |

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

***E) Leases***

Leases or other arrangements entered into for the use of an asset are classified as either finance or operating leases. Finance leases transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item. Finance leases are capitalized at the commencement of the lease term at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. When the lease contains terms that allow ownership to pass to the Company or a bargain purchase option, the period of depreciation is the economic life of the asset. All other leases are classified as operating leases and the payments are amortized on a straight-line basis over the lease term.

***F) Intangible assets***

Intangible assets represent foaming agent technology, process licenses, trademarks and product testing costs. Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and any expenditure is reflected in the consolidated statement of loss and comprehensive loss in the year in which the expenditure is incurred.

## 4. Significant accounting policies *(continued)*

### *F) Intangible Assets (continued)*

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of loss and comprehensive loss when the asset is derecognized.

### *G) Impairment of non-financial assets*

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU's, or otherwise they are allocated to the smallest group of CGU's for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives, goodwill and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of FVLCD and VIU. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of loss and comprehensive loss.

Where an impairment loss subsequently reverses for assets with a finite useful life, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years.
A reversal of an impairment loss is recognized immediately in consolidated statement of loss and comprehensive loss.

An impairment loss on intangible assets with an indefinite life and on any goodwill is not reversed.

**4. Significant accounting policies** *(continued)*

***H) Non-cash stock based compensation***

The Company operates an equity-settled non-cash stock based compensation plan under which it receives services from employees and consultants as consideration for equity instruments of the Company.

For equity-settled plans, expense is based on the fair value of the awards granted, net of expected forfeitures, on the date of grant. Fair values are determined using observable share prices and/or pricing models such as the Black-Scholes option-pricing model. The expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are satisfied with a corresponding credit to contributed surplus. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period.

For grants that expire or are forfeited without being exercised, the Company records a reclassification to deficit of the non-cash stock based compensation previously recorded to contributed surplus. For grants that are exercised, the Company records a reclassification to share capital of the non-cash stock based compensation previously recorded to contributed surplus.

At the end of each reporting period, the Company re-assesses its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions in the consolidated statement of loss and comprehensive loss.

***I) Loss per common share***

Basic loss per common share is calculated by dividing the net loss attributable to common shareholders (the numerator) by the weighted average number of common shares outstanding (the denominator) during the year. The denominator (number of units) is calculated by adjusting the shares issued at the beginning of the year by the number of shares bought back or issued during the year, multiplied by a time-weighting factor.

Diluted loss per common share is calculated by adjusting the denominator for the effects of dilutive share purchase options and any other potential dilutive items. The effects of anti-dilutive potential units are ignored in calculating diluted income per common share. All share purchase options are considered anti-dilutive when the Company is in a loss position or the average exercise price of the options exceeds the average trading price of the Company's common shares.

***J) Government grants***

Government grants are recognized when there is reasonable assurance that the precedent conditions are met and that the grants will be received. The proceeds from the government grants are recorded as a reduction of the related expenditure and are recognized over the same period, in which the costs for which the grant was intended, are amortized.

## 4. Significant accounting policies *(continued)*

### *K) Taxes*

Tax expenses comprise current and deferred tax. Taxes are recognized in the consolidated statement of loss and comprehensive loss except to the extent it relates to items recognized directly in equity.

**Current tax**

Current tax expense is based on the results for the year as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

**Deferred tax**

Deferred taxes are the taxes expected to be payable or recoverable on differences between the carrying amounts of assets in the consolidated statement of financial position and their corresponding tax bases used in the computation of taxable profit, and are accounted for using the liability method.

Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax bases. Deferred taxes are measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

### *L) Foreign currency translation*

Foreign currency denominated assets and liabilities are translated at the exchange rate prevailing at the date of the consolidated statement of financial position for monetary items. Non-monetary assets and liabilities are translated at the rates prevailing at the transaction date. Revenues and expenses are translated using exchange rates prevailing at the dates of the transaction. Any exchange gain or loss that arises on translation is included in the consolidated statement of loss and comprehensive loss for the year.

The Company translates the accounts of MOS. and CEMATRIX (USA) Inc. into Canadian dollars using the closing rate of exchange for both monetary and non-monetary assets and liabilities and the average exchange rate for revenues and expenses. The Company records the exchange differences on the translation of net assets whose functional currency is the USD in unrealized foreign exchange gain on translation of foreign subsidiary in other comprehensive income (loss).

### *M) Borrowing costs*

Borrowing costs are recognized as an expense in the period in which they are incurred unless they are incurred on a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time (greater than one year) to get ready for its intended use. Interest costs on borrowings incurred to finance a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

**4. Significant accounting policies** *(continued)*

***N) Business acquisitions***

The Company uses the acquisition method of accounting for business acquisitions. Acquired assets and assumed liabilities are recognized at their fair values at the acquisition date. For those acquisitions that include a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and subsequent changes in such fair value amounts are recognized in net loss.

Acquisition-related costs are recognized in net loss as incurred.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the fair value of consideration paid over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If the net amounts assigned to the assets acquired and liabilities assumed exceed the consideration paid, then the Company is required to reassess the value of both the consideration paid and net assets acquired and any excess remaining after this reassessment is recognized immediately in net loss. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

If the initial accounting for a business acquisition is incomplete by the end of the reporting period in which the acquisition occurs, the Company will report provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances at the acquisition date that, if known, would have affected the amounts recognized at that date.

The measurement period is the period from the date of acquisition to the date the Company obtains complete information about facts and circumstances as of the acquisition date, to a maximum of one year.

***O) New accounting policies***

During 2018 the Company adopted new IFRS standards and amendments in accordance with the transitional provisions of each standard as outlined 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 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 is 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

## 4. Significant accounting policies *(continued)*

### *O) New accounting policies* *(continued)*

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, 2018.

Classification

The Company classifies its financial assets and financial liabilities in the following measurement categories: (i) those to be measured subsequently at fair value through profit or loss ("FVTPL"); (ii) those to be measured subsequently at fair value through other comprehensive income ("FVOCI"); and (iii) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest ("SPPI"). Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains or losses are either recorded in net loss or other comprehensive income (loss).

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

Financial Assets at Fair Value Through Comprehensive Income

Equity instruments that are not held-for-trading can be irrevocably designated to have their change in fair value recognized through comprehensive income instead of through profit or loss. This election can be made on individual instruments and is not required to be made for the entire class of instruments. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at fair value through other comprehensive income are initially measured at fair value and changes therein are recognized in other comprehensive income.

## 4. Significant accounting policies *(continued)*

### *O) New accounting policies (continued)*

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit or loss or other comprehensive income (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in other comprehensive income.

The following table summarizes the classification categories for the Company's financial assets and liabilities under the superseded IAS 39 standards the newly adopted IFRS9:

| Financial instrument | New classification under IFRS 9 | Previous classification under IAS 39 |
|---|---|---|
| Financial asset: | | |
| Cash and cash equivalents | FVTPL | FVTPL |
| Term deposits | FVTPL | FVTPL |
| Trade and other receivables | Amortized cost | Loans and receivables |
| Share acquisition loans | Amortized cost | Loans and receivables |
| Acquisition related assets – Derivative assets | FVTPL | FVTPL |
| Financial liabilities: | | |
| Bank overdraft | Amortized cost | Other financial liabilities |
| Bank operating loan | Amortized cost | Other financial liabilities |
| US operating loan | Amortized cost | Other financial liabilities |
| Trade and other payables | Amortized cost | Other financial liabilities |
| Long term debt | Amortized cost | Other financial liabilities |
| Earn-out liability | FVTPL | FVTPL |
| Convertible note | Amortized cost | Other financial liabilities |
| Acquisition related liabilities – Derivative liabilities | FVTPL | FVTPL |

Impairment

IFRS 9 also introduces a new model for the measurement of impairment of financial assets based on expected credit losses ("ECL") which replaces the incurred losses impairment model previously applied.

The Company's trade and other receivables are subject to the ECL model under IFRS 9. For trade and other receivables, the Company apples 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.

*(in Canadian dollars)*

**4. Significant accounting policies** *(continued)*

***P) 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 January 1, 2019 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 operating lease commitments on facilities. The Company has not yet quantified the impact of IFRS 16.

**5. Business acquisition**

On May 31, 2018 the Company acquired of all of the issued and outstanding shares of MOS. 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. The acquisition provides a platform for long-term growth opportunities and diversification into new markets. The transaction was accounted for as a business combination.

The purchase price for all the issued and outstanding shares of MOS was $9,537,319 and was comprised of the following:

| | | |
|---|---|---|
| Cash | $ | 3,051,595 |
| Common shares *(note 18)* | | 735,553 |
| Convertible note *(note 17)* | | 3,239,750 |
| US operating loan *(note 12)* | | 968,300 |
| Earn-out liability *(note 16)* | | 1,542,121 |
| | $ | 9,537,319 |

The net cash payment of $2,807,985 was financed with a $1,800,000 USD loan from the from the Business Development Bank of Canada (note 12), a portion of the funds raised from the private placement and from working capital.

The common shares were valued at $0.22, which was the trading price on the date of acquisition.

*(in Canadian dollars)*

## 5. Business acquisition *(continued)*

Purchase price allocation

The Company determined the preliminary fair values based on discounted cash flows, market information, independent valuations and management's estimates.

| | | |
|---|---|---|
| Cash | $ | 243,610 |
| Accounts receivable | | 1,961,426 |
| Inventory | | 105,836 |
| Prepaid expenses | | 69,541 |
| Property and equipment | | 2,709,402 |
| Intangible assets | | 638,879 |
| Goodwill | | 5,881,947 |
| Trade and other payables | | (952,317) |
| Finance lease obligation | | (77,705) |
| Deferred income tax liability | | (1,043,300) |
| | $ | 9,537,319 |

The intangible assets acquired relate to the sales backlog for which contracts existed on May 31, 2018. The sales backlog acquired by the Company is amortized over 16 months on a straight line basis, which is consistent with the time period the Company expects to complete the aforementioned contracts.

Goodwill arises principally from the ability to leverage the larger base of operations, the assembled workforce, future growth and the potential to realize synergies in the form of cost savings.

Acquisition-related costs, primarily for advisory services, were $619,723 and have been recognized in the consolidated statement of loss.

Pro-forma disclosures

The following pro-forma supplemental information presents certain results of operations as if the acquisition had been completed at the beginning of the fiscal period presented to the end of the reporting period.

| | | Pro-forma |
|---|---|---|
| Revenues | $ | 20,014,762 |
| Net loss | $ | (1,995,603) |

The pro-forma supplemental information is based on estimates and assumptions which are believed to be reasonable. The pro-forma supplemental information is not necessarily indicative of the Company's consolidated financial results in future periods or the results that would have been realized had the business acquisition been completed at the beginning of the period presented. The pro-forma supplemental information excludes business integration costs and opportunities.

From the date of acquisition to December 31, 2018, MOS revenue totaled $8,308,802 and its net income totaled $968,353.

*(in Canadian dollars)*

## 6. Trade and other receivables

Trade and other receivables consist of the following components as at December 31, 2018 and 2017:

| | | **2018** | | 2017 |
|---|---|---|---|---|
| Trade receivables | **$** | **4,651,775** | $ | 741,951 |
| Holdbacks | | **434,804** | | 72,148 |
| Other receivables | | **89,278** | | 57,265 |
| | **$** | **5,175,857** | $ | 871,364 |

Trade receivables and holdbacks are unsecured and non-interest bearing and are generally on 30 day terms subject to standard ten percent construction holdbacks on most of its sales over $100,000. Holdbacks are generally collectible forty-five days after completion of the work performed by the Company, however, holdbacks can be outstanding much longer, if the holdback release is tied to the completion of the entire project by the general contractor. The Company is normally a subcontractor to the general contractor and only completes a portion of the total work to be completed by the general contractor and accordingly certain holdbacks can be outstanding for up to a year or more.

The aging of the trade receivables were as follows as at December 31, 2018 and 2017:

| | | **2018** | | 2017 |
|---|---|---|---|---|
| 1-30 days | **$** | **2,033,188** | $ | 118,297 |
| 31-60 days | | **1,855,030** | | 519,011 |
| 61-90 days | | **607,102** | | 26,881 |
| Greater than 90 days | | **156,455** | | 77,762 |
| | **$** | **4,651,775** | $ | 741,951 |

In determining the recoverable amount of a trade, holdbacks and other receivables, the Company performs a risk analysis considering the type and age of the outstanding receivable and the credit worthiness of the counterparties. The Company considers trade accounts receivable past due if they are greater than 60 days, except for holdbacks that have been invoiced, and are part of trade receivables, but are not collectible until the completion of the entire project as discussed above.

## 7. Inventory

Inventory consists of the following components as at December 31, 2018 and 2017:

| | | **2018** | | 2017 |
|---|---|---|---|---|
| Raw materials (principally foaming agent) | **$** | **364,712** | $ | 444,588 |
| Spare parts and marketing material | | **5,425** | | 393 |
| | **$** | **370,137** | $ | 444,981 |

Inventory expensed as part of cost of sales was $573,150 and $213,854, respectively, for the years ended December 31, 2018 and 2017. There were no inventory write-downs in either 2018 or 2017.

*(in Canadian dollars)*

## 8. Share acquisition loans

Share acquisition loans consist of the following components as at December 31, 2018 and 2017:

| | | **2018** | | 2017 |
|---|---|---|---|---|
| Share acquisition loans, beginning of year | **$** | **53,812** | $ | 67,875 |
| Repayments | | **(8,563)** | | (14,063) |
| Interest | | **494** | | - |
| Share acquisition loans, end of year | | **45,743** | | 53,812 |
| Non-cash fair value adjustment, beginning of year | | **(5,445)** | | (10,605) |
| Accretion of non-cash fair value adjustment | | **3,576** | | 5,160 |
| Non-cash fair value adjustment, end of year | | **(1,869)** | | (5,445) |
| | | **43,874** | | 48,367 |
| Less current portion | | **(43,874)** | | (27,611) |
| | **$** | **-** | $ | 20,756 |

In 2001 and 2002, share acquisition loans totalling $113,125 were issued to management to purchase shares of the Company. In October 2014, the terms of the share acquisition loans were changed to introduce equal annual repayment terms beginning 2015 such that the loans will be fully repaid by December 31, 2019. Prior to this change the share acquisition loans were included as a reduction in share capital. The loans bear no interest unless the loans are not repaid in accordance with the repayment terms, then the interest is payable annually on the amount then outstanding at Bank of Canada prime rate, then in effect, plus two percent and at the option of the Company the loans become immediately due and payable. For accounting purposes, because the loans bear no interest, the loans were fair valued at December 31, 2014 using a market rate. An imputed rate used was 9%. This fair value adjustment is being accreted to income over the life of the loans.

One of the individuals, who is not a Company employee, with a shareholder loan, of which $25,686 was outstanding at December 31, 2017, was unable to make two of the scheduled repayment of $8,563. Another individual, who is a Company employee, with a shareholder loan, of which $11,000 was outstanding at December 31, 2018, was unable to make one of the schedule repayment of $5,500. Commencing January 1, 2018 and January 1, 2019, respectively, interest will be charged on these outstanding payments at the Bank of Canada prime plus two percent until the outstanding repayment is made. The $8,563 and $5,500 amount is included in the current portion of the share acquisition loans. The Company has recourse on these loans as the common shares issued to these individuals can be cancelled in the event of non-payment.

*(in Canadian dollars)*

## 9. Property and equipment

The movement in the net carrying amounts for each class of property and equipment for the years ending December 31, 2018 and 2017 is outlined below:

| | Equipment and cellular material processor | Vehicles | Computer equipment and software | Furniture and fixtures | Subtotal owned | Leased: vehicles and equipment | Total |
|---|---|---|---|---|---|---|---|
| Cost | | | | | | | |
| At December 31, 2016 | 5,321,752 | 164,377 | 115,824 | 55,419 | 5,657,372 | 307,277 | 5,964,649 |
| Additions | 144,153 | 60,775 | 14,960 | 660 | 220,548 | 61,100 | 281,648 |
| Disposal | - | (18,601) | - | - | (18,601) | - | (18,601) |
| Reclassification | (47,742) | 66,183 | - | - | 18,441 | (18,441) | - |
| At December 31, 2017 | 5,418,163 | 272,734 | 130,784 | 56,079 | 5,877,760 | 349,936 | 6,227,696 |
| Accumulated depreciation | | | | | | | |
| At December 31, 2016 | (2,290,930) | (116,499) | (67,089) | (45,677) | (2,520,195) | (44,149) | (2,564,344) |
| Depreciation | (373,342) | (20,093) | (14,361) | (1,142) | (408,938) | (45,023) | (453,961) |
| At December 31, 2017 | (2,664,272) | (136,592) | (81,450) | (46,819) | (2,929,133) | (89,172) | (3,018,305) |
| Net book value | | | | | | | |
| At December 31, 2017 | 2,753,891 | 136,142 | 49,334 | 9,260 | 2,948,627 | 260,764 | 3,209,391 |
| **Cost** | | | | | | | |
| **At December 31, 2017** | **5,418,163** | **272,734** | **130,784** | **56,079** | **5,877,760** | **349,936** | **6,227,696** |
| **Acquisitions** | **2,154,432** | **433,803** | **17,495** | - | **2,605,730** | **103,672** | **2,709,402** |
| **Additions** | **15,521** | - | **11,874** | **5,834** | **33,229** | **46,856** | **80,085** |
| **Exchange difference** | **113,547** | **23,355** | **1,114** | - | **138,016** | **6,688** | **144,704** |
| **At December 31, 2018** | **7,701,663** | **729,892** | **161,267** | **61,913** | **8,654,735** | **507,152** | **9,161,887** |
| **Accumulated depreciation** | | | | | | | |
| **At December 31, 2017** | **(2,664,272)** | **(136,592)** | **(81,450)** | **(46,819)** | **(2,929,133)** | **(89,172)** | **(3,018,305)** |
| **Depreciation** | **(518,324)** | **(76,886)** | **(19,447)** | **(1,141)** | **(615,798)** | **(64,604)** | **(680,402)** |
| **Exchange difference** | **(8,270)** | **(2,547)** | **(140)** | - | **(10,957)** | **(293)** | **(11,250)** |
| **At December 31, 2018** | **(3,190,866)** | **(216,025)** | **(101,037)** | **(47,960)** | **(3,555,888)** | **(154,069)** | **(3,709,957)** |
| **Net book value** | | | | | | | |
| **At December 31, 2018** | **4,510,797** | **513,867** | **60,230** | **13,953** | **5,098,847** | **353,083** | **5,451,930** |

*(in Canadian dollars)*

## 10. Goodwill and intangible assets

Goodwill and intangibles consist of the following components as at December 2018 and 2017:

| | Foaming agent technology | Process licenses | Trademarks | Product testing costs | Sales backlog | Goodwill | Total |
|---|---|---|---|---|---|---|---|
| Cost | | | | | | | |
| At December 31, 2016 | 315,000 | 141,110 | 9,006 | 71,896 | - | - | 537,012 |
| Acquisitions | - | - | - | - | - | - | - |
| Additions | - | - | - | 153,896 | - | - | 156,896 |
| Government grants | - | - | - | (51,596) | - | - | (51,596) |
| Exchange difference | - | - | - | - | - | - | - |
| At December 31, 2017 | 315,000 | 141,110 | 9,006 | 174,196 | - | - | 639,312 |
| Accumulated amortization | | | | | | | |
| At December 31, 2016 | - | - | - | - | - | - | - |
| Amortization | - | - | - | - | - | - | - |
| At December 31, 2017 | - | - | - | - | - | - | - |
| Net book value | - | - | - | - | - | - | |
| At December 31, 2017 | 315,000 | 141,110 | 9,006 | 174,196 | - | - | 639,312 |
| **Cost** | | | | | | | |
| **At December 31, 2017** | **315,000** | **141,110** | **9,006** | **174,196** | **-** | **-** | **639,312** |
| **Acquisitions** | **-** | **-** | **-** | **-** | **638,879** | **5,881,947** | **6,520,826** |
| **Additions** | **-** | **-** | **-** | **91,767** | **-** | **-** | **91,767** |
| **Government grants** | **-** | **-** | **-** | **(16,775)** | **-** | **-** | **(16,775)** |
| **Exchange difference** | **-** | **-** | **-** | **-** | **22,841** | **310,006** | **332,847** |
| **At December 31, 2018** | **315,000** | **141,110** | **9,006** | **249,188** | **661,720** | **6,191,953** | **7,567,977** |
| **Accumulated amortization** | | | | | | | |
| **At December 31, 2017** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Amortization** | **-** | **-** | **-** | **-** | **(283,410)** | **-** | **(283,410)** |
| **At December 31, 2018** | **-** | **-** | **-** | **-** | **(283,410)** | **-** | **(283,410)** |
| **Net book value** | | | | | | | |
| **At December 31, 2018** | **315,000** | **141,110** | **9,006** | **249,188** | **378,310** | **6,191,953** | **7,284,567** |

The intangible assets with indefinite lives includes foaming agent technology, process licenses and trademarks. The foaming agent technology relates to the cost of obtaining a foaming agent formula which is used by the Company to produce one of the unique foaming agents which it uses in the production of cellular concrete. This foaming agent formula, which enables the production of cellular concrete which has certain unique properties, cannot be easily duplicated. The process licenses relates to the cost of obtaining a mechanical process patent which the Company believes will enhance the production of its cellular concrete. To date the Company has not had the necessary funds to develop this process. The process is protected by the patent which is registered in the U.S.

*(in Canadian dollars)*

**10. Goodwill and intangible assets** *(continued)*

The trademarks relate to cost of initially registering certain trademarks in both Canada and the U.S. These trademarks are renewed as required for a nominal cost. As a result of an assessment of these facts Management believes that these items have an indefinite life.

The indefinite life intangibles have been allocated to the Cematrix and MOS group of CGU's. Product testing costs relate to third party testing and verification of certain qualities of the Company's products. This information is particularly important for the further development of the infrastructure market. The product testing costs are not completed and therefore are not available for use. At the end of each testing program, the specific product testing costs related to the particular program will be amortized over a future years based on their estimated useful life. During the years ended December 31, 2018 and 2017, respectively, the Company incurred expenditures of $91,767 and $153,896, including capitalized labour costs of approximately $26,269 and $42,700, and government grants received of $16,775 and $51,596.

The sales backlog and goodwill were the result of the acquisition of MOS (note 5). The sales backlog represents the value of contracted sales that existed on the closing date. The sales backlog acquired by the Company is being amortized over 16 months on a straight line basis, which is consistent with the time period the Company expects to complete the aforementioned contracts. Goodwill arises principally from the ability to leverage the larger base of operations, the assembled workforce, future growth and the potential to realize synergies in the form of cost savings.

For the purposes of impairment testing goodwill has been allocated to the MOS CGU.

The recoverable amounts have been determined based on a VIU calculation using cash flow projections from financial forecasts approved by senior management covering a five year discounted future cash flow model plus a terminal value. There is a significant amount of uncertainty with respect to estimating the recoverable amount 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, terminal value and discount rate.

The key assumptions used, by CGU, in the calculation of recoverable amounts are gross margin and the discount rates:

| | MOS | Cematrix Canada | |
|---|---|---|---|
| | 2018 | 2018 | 2017 |
| Gross margin | 29% | 28% | 28% |
| Pre tax discount rate | 18% | 18% | 18% |

Near term (1 year) sales growth assumptions are based on contracted projects (including backlogs), as well as probability adjusted forecasts (range of 10% to 100%) for projects on which the Company has placed or will place bids, where the probabilities applied are based on management's assessment of a particular project based on historical experience and the stage that the project is in the sales cycle. Management has also given consideration to its relationships with customers, the competitive landscape and changes in its business strategy. With regard to gross margins, consideration is given to historical operating margins in the end markets where prospective work opportunities are most significant and changes in the Company's business. A 1% change in gross margin in isolation would not result in an impairment charge.

## 10. Goodwill and intangible assets *(continued)*

The terminal value was calculated using a discount rate of 18% and steady conservative annual growth of 2.0% in the terminal year.

Pre-tax discount rates used reflect management's assessment of the risks of the CGU or group of CGU's and its past experience in raising capital. The Company's pre-tax discount rate has been applied based on the WACC and reflects the current market assessments of the time value of money and the risks specific to the CGU. Furthermore, suitable sensitivity tests are also applied in conjunction with cash flow forecast for the CGU in question. A change in the absolute discount rate of 2% in isolation would not result in an impairment charge.

There was no impairment recorded as at December 31, 2018 and 2017.

## 11. Bank operating loan

In April 2016, CEMATRIX's wholly owned subsidiary, CEMATRIX (Canada) Inc. entered into a financing arrangement with the Canadian Western Bank (the "Bank") which provides a $1,500,000 demand operating loan. The bank operating loan (the "Loan") bears interest at an amount equal to the greater of 4.70% or 2% above the Bank's prime lending rate, which is currently at 3.95%, as may occur from time to time, and is secured by a general security agreement providing a first secured interest in the receivables and inventory of CEMATRIX (Canada) Inc. The Loan is further guaranteed by the Company with the Company granting a general security agreement providing a first secured interest in all present and after acquired property of the Company.

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 December 31, 2018 was $1,500,000, of which $1,205,443 was outstanding as at December 31, 2018 ($66,399 at December 31, 2017).

The Loan is used to finance day-to-day operations of CEMATRIX (Canada) Inc.

The bank operating loan contains covenants in regard to consolidated cash flow coverage ratio, consolidated debt to tangible net worth ratio, consolidated current ratio and consolidated amount of tangible net worth. At December 31, 2018, Cematrix (Canada) Inc. was not in compliance with these covenants. Subsequent to year end, the Bank has provided relief on these tests for the year ended December 31, 2018 (see Note 31).

*(in Canadian dollars)*

## 12. US Operating loan

As part of the consideration for the acquisition of MOS on May 31, 2018, the former owner of MOS (the "Vendor") agreed to enter into a financing arrangement with the Company to provide a $750,000 USD operating loan. The interest, which is payable quarterly, is 7.5% at the period end date and is set at 2.00% above JPMorgan Chase Bank Bank's prime lending rate, which was 5.50%. The principal must be repaid in full before May 31, 2019.

The loan is secured by MOS's trade receivable and inventory and is further guaranteed with a general security agreement provided by the Company.

The loan is fully drawn at December 31, 2018 and had a Canadian equivalent value of $1,023,150.

## 13. Trade and other payables

Trade and other payables consist of the following components as at December 31, 2018 and 2017:

| | | **2018** | | 2017 |
|---|---|---|---|---|
| Trade payables | **$** | **1,388,756** | $ | 325,794 |
| Accrued interest | | **23,374** | | 8,325 |
| Other accruals | | **99,855** | | 151,461 |
| Payroll remittance and goods & services tax | | **481,055** | | 83,784 |
| | **$** | **1,993,040** | $ | 569,364 |

## 14. Long term debt

Long term debt consists of the following components as at December 31, 2018 and 2017:

| | **Maturity** | **Interest rate** | | **2018** | | 2017 |
|---|---|---|---|---|---|---|
| BDC financing | | | | | | |
| Loan 1 | October 1, 2020 | Floating | $ | **334,770** | $ | 535,632 |
| Loan 2 | December 1, 2022 | Floating | | **333,120** | | 416,400 |
| Loan 3 | September 1, 2024 | Floating | | **138,595** | | 180,555 |
| Loan 4 | September 1, 2021 | Floating | | **57,600** | | 80,640 |
| Loan 5 | August 1, 2026 | Floating | | **2,250,930** | | - |
| | | | | **3,115,015** | | 1,213,227 |
| Secured debenture | February 1, 2020 | Fixed | | **1,000,000** | | 1,000,000 |
| | | | | **4,115,015** | | 2,213,227 |
| Less current portion | | | | **(697,407)** | | (349,142) |
| | | | **$** | **3,417,608** | $ | 1,864,085 |

**14. Long term debt** *(continued)*

Business Development Bank of Canada Financing ("BDC Financing"):

Loan 1 – This loan of $1,406,000 was fully drawn down in 2015. The proceeds from the loan were used to support equipment additions and was drawn down as these expenditures were incurred. The interest, which is payable monthly, is at a variable rate of 1.75% above the BDC floating base rate, currently set at 6.05%. The loan is repayable over seven years. Payments of principal of $33,477 are required monthly from July to December of each of the years to October 2020.

Loan 2 – In June 2016, the Company's wholly owned subsidiary, CEMATRIX (Canada) Inc., entered into an agreement with the BDC for a working capital loan of $500,000. The loan was fully drawn down in December 2016. The interest, which is payable monthly, is at a variable rate of 3.86% above the BDC floating base rate, currently set at 6.05%. The loan is repayable over six years, with seasonal payments of principal required from July to December of each year starting in July 2017. Payments of principal of $14,200 were required in July 2017 and $13,880 from August to December 2017. Principal payments for each year thereafter of $13,880 monthly from July to December.

Loan 3 - In October 2016, the Company's wholly owned subsidiary, CEMATRIX (Canada) Inc., entered into an agreement with the BDC for an equipment loan of $500,000. This loan can be drawn down anytime over the 30 months from the date of the loan. As of December 31, 2018, $180,555 has been drawn down. The interest, which is payable monthly, is at a variable rate of 1.85% above the BDC floating base rate, currently set at 6.05%. At the Company's option the interest rate can be fixed once the loan is fully drawn. Interest, on any loan amounts drawn, is payable monthly. The loan is repayable over six years, with seasonal payments of principal required. Payments of principal of $14,200 were required in October 2018 and $13,880 from November to December 2018. Payments of principal of $13,880 monthly are required from July to December for each of the years 2019 to 2023 and $13,880 monthly from July to September 2024.

Loan 4 – In March 2017, the Company's wholly owned subsidiary, CEMATRIX (Canada) Inc., entered into an agreement with the BDC for a loan of $100,000 to fund the first year costs related to a program offered by the BDC that will assist the Company in establishing its growth strategy. The loan was fully drawn down in March 2017. The interest, which is payable monthly, is at a variable rate of 1.00% above the BDC floating base rate, currently set at 6.05%. The loan is repayable over four years, with seasonal payments of principal required. Payments of principal of $4,000 were required in August 2017 and $3,840 from September to December 2017, of $3,840 monthly from July to December 2017 and from September to December 2018. Payments of principal of $3,840 are required from July to December for each of the years 2019 to 2020 and $3,840 monthly from July to September 2021.

Loan 5 – In May 2018 the Company entered into an agreement with the BDC for a loan of $1,800,000 USD to fund a portion of the purchase price of the MOS acquisition. The interest, which is payable monthly, is at a variable rate of 1.60% above the BDC floating USD base rate, currently set at 7.15%. The loan is repayable over eight years, with seasonal payments of principal required. Payments of principal of $37,500 USD were required from September to December 2018. Payments of principal of $37,500 USD are required from July to December for the years 2019 to 2025 and from July to August 2026. On May 31, 2018, the Canadian equivalent of this loan was $2,332,620. On December 31, 2018, the Canadian dollar equivalent of this was $2,250,930. The difference being $81,690 which is the net of principal repayments of $195, 990 being offset by $114,300 in unrealized foreign exchange loss, which was recognized on the statement of loss and comprehensive loss.

Loan 1 may be prepaid, on each anniversary date, up to 15% of the then outstanding principal amount but if not used the prepayment privilege for that anniversary date ceases. In addition to the annual privilege the Company may prepay all or part of the principal outstanding plus any interest owing up to the time of prepayment plus an indemnity equal to three months interest on the prepaid principal at the floating rate then applicable if the loan is at floating rates, or if the loan is at a fixed rate, the sum of three months interest on the prepaid principal at the fixed interest rate then applicable and an interest differential relative to current fixed rate loans of the BDC.

**14. Long term debt** *(continued)*

Loan 2 may be prepaid at any time without indemnity. For Loan 2, the BDC will, within 24 months of the loan, and provided there are no adverse material changes, re-advance, one time only, any repaid portion of the loan in an amount not less than $10,000 under the same terms and conditions, other than a revised amortization period and maturity date, if applicable.

Loan 3 may be prepaid at any time without indemnity. If the loan is at floating rates, any prepayment must include any interest owing up to the time of the prepayment. If the loan is at a fixed rate any prepayment must include any interest owing up to the time of the prepayment and an interest differential charge.

Loan 4 may be prepaid, once in any twelve month period, up to 15% of the then outstanding principal amount but the prepayment privilege is not cumulative. In addition to the annual privilege, the Company may prepay all or part of the principal outstanding plus any interest owing up to the time of prepayment plus an indemnity equal to three months interest on the prepaid principal at the floating rate then applicable if the loan is at floating rates, or if the loan is at a fixed rate, the sum of three months interest on the prepaid principal at the fixed interest rate then applicable and an interest differential relative to current fixed rate loans of the BDC.

Loan 5 may be prepaid, once in any twelve month period, up to 15% of the then outstanding principal amount but the prepayment privilege is not cumulative. In addition to the annual privilege the Company may prepay all or part of the principal outstanding plus any interest owing up to the time of prepayment plus an indemnity equal to three months interest on the prepaid principal at the floating rate then applicable if the loan is at floating rates, or if the loan is at a fixed rate, the sum of three months interest on the prepaid principal at the fixed interest rate then applicable and an interest differential relative to current fixed rate loans of the BDC.

Under terms of the BDC loans, the Company will have the option to prepay the facilities. The prepayment penalties vary depending on the time frame. Timeframe and terms are specified in individual agreements. The prepayment option is considered to be an embedded derivative with a fair value of nil at the date of issuance and at December 31, 2018.

The BDC loans (“BDC Financings”) are secured with a general security agreement providing a first security interest in the Company’s current owned equipment and new equipment acquired pursuant to the BDC Financings and a security interest in all present and after acquired personal property of the Company subject only to lender charges on receivables and inventory in support of the Company’s demand operating loan and future charges on specific equipment to a creditor for financing the purchase or lease thereof.

There are no financial covenants with the BDC loans 1 to 4. The BDC loan 5 has a consolidated fixed charge coverage ratio financial covenant which is tested annually. As at December 31, 2018, the Company is in compliance with this covenant.

Secured Debenture:

In February 2014 the Company issued a secured debenture for $1,000,000 (“Secured Debenture”) to an unrelated party. The Secured Debenture bears interest of 9%, payable monthly, and was initially repayable in full in February 2017. This was extended by one year to February 2018 in April 2016 and further to February 2019, with no other items being amended. In May 2018, the Company negotiated a further extension of the repayment of the principal of the Secured Debenture to February 2020. The Company has the option to prepay the full amount of the Secured Debenture without penalty. The Secured Debenture is secured by the Company’s currently owned equipment and new equipment acquired, subject to the priority of the BDC Financing. The Secured Debenture is further secured by all present and after acquired personal property of the Company subject only to lender charges on receivables and inventory in support of the Companies line of credit and any charges on specific equipment financed or leased.

The terms of the Secured Debenture restrict the amount of bank operating loan to an amount equal to $1,000,000, with an increase to $1,500,000 on a short term basis during the Company’s busy season, plus 60% of the

## 14. Long term debt *(continued)*

Company's aggregate after tax earnings from the date the Secured Debenture was issued, without prior consent from the lender.

## 15. Finance lease obligations

Finance leases, which relate to the purchase of equipment, bear interest at 5.7% to 14.2% and are repayable in blended monthly payments and mature from January 2019 to July 2022. The leases are secured by the leased assets which have a carrying value of $353,083 (2017 - $260,764). The annual future commitments under the leases are as follows:

| | | |
|---|---|---|
| 2019 | $ | **180,040** |
| 2020 | | **73,932** |
| 2021 | | **51,689** |
| 2022 | | **2,588** |
| | | **308,249** |
| Less imputed interest | | **(19,296)** |
| | | **288,953** |
| Current portion | | **(167,672)** |
| | $ | **121,281** |

New finance lease obligations of $46,856 were entered into during the year ended December 31, 2018 ($61,100 during the year ended December 31, 2017).

## 16. Earn-out liability

The earn-out will pay the Vendor 70% of the earnings before interest, income taxes, depreciation and amortization ("EBITDA") of MOS above $500,000 USD for the first 12 month period after May 31, 2018 and 65% of the EBITDA above $500,000D US for the second and third 12 month periods after May 31, 2018. At a 27% discount rate, the earn-out liability, which is denominated in USD is measured at FVTPL and is recalculated at every reporting period based upon management's estimate which considers economic conditions, customer demand for MOS's services and current borrowing rates available to the Company.

| | | **2018** | | 2017 |
|---|---|---|---|---|
| Value of liability on initial recognition | $ | **1,542,121** | $ | - |
| Revaluation in the year | | **305,031** | | |
| Accretion expense | | **243,032** | | - |
| Exchange difference | | **89,846** | | - |
| | | **2,180,030** | | - |
| Current portion | | **(1,051,772)** | | - |
| | $ | **1,128,258** | $ | - |

*(in Canadian dollars)*

## 17. Convertible note

In conjunction with the acquisition of MOS on May 31, 2018 a $2,500,000 USD convertible note was issued to the Vendor. The convertible note bears interest at a rate of 8% per year, payable quarterly, for a period of three years. The convertible note can convert into 13,373,684 CEMATRIX Shares at the option of the holder, at any time, the equivalent of $0.2375 per CEMATRIX common 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 convertible note is trifurcated into a conversion feature, prepayment feature and host debt contract. The conversion feature is an embedded derivatives as the convertible note violates the fixed for fixed criterion because the convertible note is denominated in a currency other than the Company's functional currency. The prepayment feature is an embedded derivative as its value is not closely related with the value of the host debt contract. The conversion feature and prepayment feature are measured at FVTPL. Changes in the fair value of the conversion and prepayment feature will be recognized in profit or loss. The host debt contract was initially measured at its fair value and is subsequently measured at amortized cost over the term to maturity using an interest rate of 11.2%.

The fair value of the conversion feature was determined using a Black-Scholes option pricing model. The fair value of the prepayment feature was determined using a modified Black-Scholes option pricing model that incorporates the prepayment penalty and is referred to as the Barrier option pricing model. At May 31, 2018 and December 31, 2018 used the following assumptions:

| | **December 31, 2018** | May 31, 2018 |
|---|---|---|
| Estimated fair value per common share | **$0.07** | $0.11 |
| Common share price | **$0.18** | $0.22 |
| Risk-free interest rate | **1.84%** | 1.99% |
| Expected life | **2.4 years** | 3.0 years |
| Expected volatility in stock price | **80.0 %** | 72.5 % |
| Expected annual dividend yield | **nil** | nil |
| Estimated forfeiture rate | **nil** | nil |
| Prepayment penalty | **5% - 10%** | 5% - 10% |

*(in Canadian dollars)*

## 17. Convertible note *(continued)*

Convertible note consists of the following components as at December 31, 2018 and December 31, 2017

| | | **2018** | | 2017 |
|---|---|---|---|---|
| **Host debt contract** | | | | |
| Principal of convertible note on issuance | **$** | **3,239,750** | $ | - |
| Add: Derivative asset prepayment feature | | **1,100,695** | | - |
| Less: Derivative liability conversion feature | | **(1,365,930)** | | - |
| Value of liability component on initial recognition | | **2,974,515** | | - |
| Accretion expense | | **45,403** | | - |
| Foreign exchange | | **158,496** | | - |
| | | **3,178,414** | | - |
| **Prepayment feature** | | | | |
| Fair value of derivative asset component on initial recognition | | **(1,100,695)** | | - |
| Fair value adjustment on asset liability | | **328,201** | | - |
| | | **(772,494)** | | - |
| **Conversion feature** | | | | |
| Fair value of derivative liability component on initial recognition | | **1,365,930** | | - |
| Fair value adjustment on derivative liability | | **(393,458)** | | - |
| | | **972,472** | | - |
| **Balance** | **$** | **3,378,392** | $ | - |

*(in Canadian dollars)*

## 18. Share capital

### *(a) Authorized*

Unlimited number of no par value voting common shares
Preferred shares – to be issued in series as authorized by the Board of Directors

### *(b) Issued*

The following table summarizes the changes in the issued common shares of the Company for the years ended December 31, 2018 and 2017:

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Number Of Shares** | **$ Amount** | Number Of Shares | $ Amount |
| Common shares, beginning of year | **34,475,994** | **$7,495,530** | 34,475,994 | $7,495,530 |
| Common shares issued | **300,000** | **85,422** | - | - |
| Private placement, net of costs | **6,361,354** | **1,224,245** | - | - |
| Business acquisition (note 5) | **3,343,421** | **735,553** | - | - |
| Reclassification of warrants | - | **(400,074)** | - | - |
| Common shares, end of year | **44,480,769** | **$9,140,676** | 34,475,994 | $7,495,530 |

On April 30, 2018 and June 26, 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 20,250 finder’s warrants were issued 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 Private Placement.

On August 24, 2018, the Company completed a non-brokered private placement for 2,880,224 units (each, a “Unit”) at a price of $0.20 per Unit for gross proceeds of $576,045 (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 $24,900 and 62,250 finder’s warrants were issued that entitle the holder thereof to acquire one common share for $0.35 until the expiry date of August 24, 2020. In addition to this, costs of $11,544 were incurred in conjunction with the Private Placement.

The net proceeds of the Private Placements was used for general working capital and to finance a portion of the purchase price for the Acquisition.

On September 25, 2018, 300,000 common shares were issued on the exercise of employee stock options, proceeds of $43,500 were received by the Company and $41,922 of related non-cash stock based compensation previously charged to contributed surplus was reclassified to share capital.

*(in Canadian dollars)*

## 18. Share capital *(continued)*

The Company has issued 3,263,177 share purchase warrants as of December 31, 2018. Each warrant entitled the holder thereof to purchase one common share at a price of $0.35 per share. The fair value per share purchase warrant was determined using the following weighted average assumptions at the time of the issuance using the Black Scholes option pricing model:

| | **April 30, 2018** | **June 26, 2018** | **August 24, 2018** |
|---|---|---|---|
| Estimated fair value per share purchase warrant | **$0.14** | **$0.11** | **$0.11** |
| Common share price | **$0.20** | **$0.23** | **$0.24** |
| Risk-free interest rate | **1.99%** | **1.99%** | **1.99%** |
| Expected life | **2 years** | **2 years** | **2 years** |
| Expected volatility in stock price | **106.0 %** | **104.0 %** | **101.0%** |
| Expected annual dividend yield | **nil** | **nil** | **nil** |
| Estimated forfeiture rate | **nil** | **nil** | **nil** |
| Share purchase warrants | **1,601,800** | **138,765** | **1,440,112** |
| Share purchase warrants – Finder's warrants | **18,750** | **1,500** | **62,250** |

### *(c) Share Purchase Warrants*

The following table reflects the issuance of warrants for the year ended December 31, 2018 and December 31, 2017 which is recorded in contributed surplus:

| | **2018** | | | 2017 | | |
|---|---|---|---|---|---|---|
| | **Number Of Shares** | | **$ Amount** | Number Of Shares | | $ Amount |
| Warrants, beginning of year | **-** | **$** | **-** | - | **$** | **-** |
| Private placement | **3,263,177** | | **400,074** | - | | **-** |
| Warrants, end of year | **3,263,177** | **$** | **400,074** | - | $ | **-** |

## 19. Cost of sales

Cost of sales consists of the following components for the years ended December 31, 2018 and 2017:

| | | **2018** | | 2017 |
|---|---|---|---|---|
| Manufacture of cellular concrete | | | | |
| Materials | **$** | **7,661,091** | $ | 3,782,733 |
| Direct labour | | **3,079,314** | | 1,505,845 |
| Variable expenses | | **1,497,198** | | 758,072 |
| Fixed overhead | | **333,009** | | 395,254 |
| Depreciation | | **643,904** | | 424,199 |
| | **$** | **13,214,516** | $ | 6,866,103 |

*(in Canadian dollars)*

### 20. Finance costs

The finance costs incurred for the years ended December 31, 2018 and 2017 are as follows:

| | | **2018** | | 2017 |
|---|---|---|---|---|
| Interest | | | | |
| BDC Financings | **$** | **202,922** | $ | 101,011 |
| Secured Debenture | | **90,000** | | 90,000 |
| Convertible Note | | **147,949** | | - |
| Finance lease obligations | | **12,584** | | 15,685 |
| Bank operating loan | | **44,583** | | 2,085 |
| US operating loan | | **47,739** | | - |
| Share acquisition loans | | **(494)** | | - |
| Other | | **4,001** | | 3,869 |
| | **$** | **549,284** | | 212,650 |

The accretion costs incurred for years ending December, 2018 and 2017 are as follows:

| | | **2018** | | 2017 |
|---|---|---|---|---|
| Accretion | | | | |
| Accretion of share acquisition loans (note 8) | **$** | **(3,576)** | $ | (5,160) |
| Accretion of convertible note (note 17) | | **45,403** | | - |
| Accretion of earn-out liability (note 16) | | **243,032** | | - |
| | **$** | **284,859** | | (5,160) |

### 21. Other income (expenses)

Other income (expenses) for the years ended December 31, 2018 and 2017 consists of the following:

| | | **2018** | | 2017 |
|---|---|---|---|---|
| Unrealized foreign exchange losses | **$** | **(273,383)** | $ | - |
| Realized foreign exchange gains / (losses) | | **(4,159)** | | 1,084 |
| Loss on sale of equipment | | **-** | | (6,301) |
| Equipment rental | | **55,300** | | 49,184 |
| Other | | **(259)** | | 1,605 |
| | **$** | **(222,501)** | $ | 45,572 |

Pursuant to an equipment lease agreement, entered into in 2017, with Lafarge Canada Inc. ("Lafarge"), the Company receives monthly rental payments of $7,900, when the equipment is on site, over an initial term of five years for equipment utilized under the regional market development program with Lafarge. The rental payments, assuming that the equipment remains on site for the full year, are $379,200 for 2019 to 2022. The Company retains all risks of ownership of the related equipment, including being responsible for operation and maintenance. For accounting purposes the equipment lease agreement is treated as an operating lease. The net book value of the related equipment is $562,694 as of December 31, 2018.

In 2017 the Company sold a vehicle and equipment, which had a book value of $18,601, for proceeds of $12,300.

*(in Canadian dollars)*

## 22. Taxes

The components of the Company's tax expense which has been recorded in these consolidated financial statements are as follows:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Loss before taxes | $ | **(1,294,118)** | $ | (1,538,754) |
| Combined statutory tax rate | | **27.0%** | | 27.0% |
| Computed "expected" tax recovery | | **(349,412)** | | (415,464) |
| Differences resulting from: | | | | |
| Non-cash stock-based compensation | | **22,989** | | (1,819) |
| Change in enacted rate and other | | **187,148** | | 12,150 |
| Change in deferred tax assets not recognized | | **(62,868)** | | 51,580 |
| **Recovery of deferred taxes** | **$** | **(202,143)** | $ | (353,553) |

The tax effects of deductible and taxable temporary differences that give rise to the Company's deferred tax assets and liabilities are as follows:

**Deferred tax assets (liabilities)**

| Canada | December 31, 2017 | Business Combination | Deferred Tax Recovery | Foreign exchange | December 31, 2018 |
|---|---|---|---|---|---|
| Non-capital losses | 1,206,277 | - | 43,424 | - | 1,249,701 |
| Cumulative eligible capital | 86,590 | - | (86,590) | - | - |
| Finance lease obligations | 65,090 | - | (9,484) | - | 55,606 |
| Property and equipment | (229,530) | - | 23,473 | - | (206,057) |
| Intangibles | (198,264) | - | 8,081 | - | (190,183) |
| Other | 156,177 | - | 78,056 | - | 234,233 |
| Net deferred tax asset (liability) | 1,086,340 | - | 56,960 | - | 1,143,300 |

| U.S. | December 31, 2017 | Business Combination | Deferred Tax Recovery | Foreign exchange | December 31, 2018 |
|---|---|---|---|---|---|
| Property and equipment | - | (632,402) | 59,539 | (42,985) | (615,848) |
| Intangibles | - | (169,200) | 74,448 | (5,370) | (100,122) |
| Other | - | (241,698) | 11,196 | (12,179) | (242,681) |
| Net deferred tax asset (liability) | - | (1,043,300) | 145,183 | (60,534) | (958,651) |

*(in Canadian dollars)*

**22. Taxes** *(continued)*

**Deferred tax assets (liabilities)**

| Canada | December 31, 2016 | Business Combination | Deferred Tax Recovery | Foreign exchange | December 31, 2017 |
|---|---|---|---|---|---|
| Non-capital losses | 823,138 | - | 383,139 | - | 1,206,277 |
| Cumulative eligible capital | 89,659 | - | (3,069) | - | 86,590 |
| Finance lease obligations | 64,723 | - | 367 | - | 65,090 |
| Property and equipment | (209,607) | - | (19,923) | - | (229,530) |
| Intangibles | (142,979) | - | (55,285) | - | (198,264) |
| Other | 107,853 | - | 48,324 | - | 156,177 |
| Net deferred tax asset (liability) | 732,787 | - | 353,553 | - | 1,086,340 |

Deferred tax assets are recorded only to the extent that future taxable income will be available against which the deferred tax asset can be offset. Management estimates future taxable income using forecasts based on the best available current information. Based on current estimates, there is currently insufficient evidence that deferred tax asset will be recovered. The deferred tax asset will only be recognized with improved certainty and quantification of taxable profits related to these assets.

**Unrecognized deductible temporary differences**

| | **2018** | 2017 |
|---|---|---|
| Canada | | |
| Non-capital losses | 562,889 | 140,244 |
| Intangibles | 95,000 | 95,000 |
| U.S. | | |
| Property and equipment | - | 663,127 |
| Other | - | 93,232 |
| **Unrecognized deductible temporary differences** | 657,889 | 991,603 |

The Company has not recognized a deferred tax asset in respect of $562,889 of non-capital losses in Canada. These losses expire between 2026 and 2038.

*(in Canadian dollars)*

## 23. Loss per common share

The number of common shares included in the computation of basic and diluted loss per common share for the years ended December 31, 2018 and 2017 is as follows:

| | **2018** | 2017 |
|---|---|---|
| Weighted average common shares outstanding – basic | **39,854,633** | 34,475,994 |
| Effect of dilutive instruments | **-** | - |
| Weighted average common shares outstanding – diluted | **39,854,633** | 34,475,994 |

The stock options for the year ended December 31, 2018 and 2017 have no dilutive effect as the Company incurred losses in these years.

## 24. Non-cash stock based compensation

The Company has an option plan for the issue of up to 10% of the issued and outstanding common shares of the Company. All options that are outstanding will expire upon maturity, or earlier, if the optionee ceases to be a director, officer, employee or consultant or there is a merger, amalgamation or change in control of the Company. The purpose of the option plan is to reward and retain directors, management and consultants important to the continued operation and growth of the Company.

At December 31, 2018, the Company had 4,220,000 shares reserved for the issuance of existing stock options (December 31, 2017 – 3,275,000).

Options issued to employees and directors generally vest as to one third immediately on grant and one third on each of next two anniversary dates. Options issued to new employees generally do not vest for a year after issue.

The following table summarizes the changes in options for the years ended December 31, 2018 and 2017:

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Number of Options** | **Weighted average price** | Number of Options | Weighted average price |
| Outstanding, beginning of year | **3,275,000** | **$0.230** | 3,425,000 | $0.25 |
| Granted | **1,295,000** | **$0.200** | 100,000 | $0.18 |
| Exercised | **(300,000)** | **$0.145** | - | - |
| Expired | **(50,000)** | **$0.240** | - | - |
| Forfeited | **-** | **-** | (250,000) | $0.43 |
| Outstanding, end of year | **4,220,000** | **$0.230** | 3,275,000 | $0.23 |
| Exercisable, end of year | **2,891,667** | **$0.230** | 3,000,000 | $0.21 |

Effective April 28, 2018, the Company announced the appointment of Mr. James Chong to the position of Chief Financial Officer of the Company. The former Chief Financial Officer of the Company, retired on June 30, 2018. Mr. Chong was awarded 250,000 stock options with an exercise price of $0.20 per common share. These stock options are for a five 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.

*(in Canadian dollars)*

**24. Non-cash stock based compensation** *(continued)*

In August 2018, the Company issued 345,000 stock options to MOS employees. 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 five year term and will vest over three years as to one third at the end of each year.

On November 12, 2018, 200,000 stock options were issued to The Howard Group, the Company's investor relations firm, with an exercise price of $0.25, for a three year term. One-third vesting immediately, one-third twelve months after the option grant date and one-third twenty four months after the option grant date.

During the year ended December 31, 2017, 100,000 stock options were issued to a new employee and 250,000 options were forfeited when an employee left the Company before any of the options were vested.

There are 1,328,332 stock options that have not vested as at December 31, 2018 (December 31, 2017 – 275,000 options).

The following table summarizes the stock options to acquire common shares outstanding as at December 31, 2018:

| Grant Date | Number Options | Number of Options Exercisable | Exercise Price ($) | Weighted average remaining life (years) | Expiry Date |
|---|---|---|---|---|---|
| March 26, 2014 | 600,000 | 600,000 | 0.145 | 0.23 | March 26, 2019 |
| October 22, 2014 | 1,575,000 | 1,575,000 | 0.240 | 0.81 | October 22, 2019 |
| March 5, 2015 | 100,000 | 100,000 | 0.200 | 1.18 | March 5, 2020 |
| April 15, 2015 | 150,000 | 150,000 | 0.190 | 1.29 | April 15, 2020 |
| March 18, 2016 | 300,000 | 300,000 | 0.400 | 0.21 | March 18, 2019 |
| May 4, 2016 | 100,000 | 66,668 | 0.430 | 1.34 | May 4, 2020 |
| August 2, 2017 | 100,000 | 33,333 | 0.180 | 3.59 | August 2, 2022 |
| April 30, 2018 | 250,000 | - | 0.200 | 4.33 | April 30, 2023 |
| May 31, 2018 | 500,000 | - | 0.200 | 2.42 | May 31, 2021 |
| August 28, 2018 | 345,000 | - | 0.200 | 4.66 | August 28, 2023 |
| November 12, 2018 | 200,000 | 66,666 | 0.250 | 2.87 | November 12, 2020 |
| | 4,220,000 | 2,891,667 | 0.230 | | |

Non-cash stock based compensation for the year ended December 31, 2018 was an cost of $85,145. Non-cash based compensation expense for the year ended December 31, 2017 was a recovery of $6,737. Non-cash based compensation is recognized in the consolidated statement of loss and comprehensive loss with an offsetting amount charged to contributed surplus. Non-cash stock based compensation has no current period impact on the Company's cash position.

*(in Canadian dollars)*

## 24. Non-cash stock based compensation *(continued)*

At the date of grant, the per share fair value of the options granted and other assumptions, using the Black-Scholes option pricing model are as follows:

| | **2018** | 2017 |
|---|---|---|
| Estimated fair value per option | **\$0.14 - \$0.19** | \$0.14 |
| Weighted average common share price | **\$0.22** | \$0.18 |
| Risk-free interest rate | **1.99%** | 1.44% |
| Expected life | **3 years** | 4 years |
| Expected volatility in stock price | **101 - 112%** | 113% |
| Expected annual dividend yield | **nil** | nil |
| Estimated forfeiture rate | **nil** | nil |

In September 2018 the Company reclassified \$13,002 from contributed surplus to deficit related to non-cash stock based compensation for option grants that had expired without being exercised. In addition, the Company reclassified \$41,922 from contributed surplus to share capital related to non-cash stock based compensation for 300,000 option grants that were exercised in the year ended December 31, 2018.

## 25. Change in non-cash working capital

The changes in non-cash working capital items - asset (increase) decrease and liability increase (decrease) - are outlined below for the years ended December 31, 2018 and 2017.

| | | **2018** | | 2017 |
|---|---|---|---|---|
| Trade and other receivables | **\$** | **(2,170,827)** | \$ | 1,220,414 |
| Inventory | | **186,318** | | 8,456 |
| Prepaid expenses and deposits | | **(41,345)** | | 31,535 |
| Trade and other payables | | **372,496** | | 84,387 |
| | **\$** | **(1,653,358)** | \$ | 1,344,792 |

## 26. Related party transactions

During the year ended December 31, 2018, the Company incurred legal fees from a firm which employs one of the directors of the Company in the amount of \$114,774 (\$20,515 for the year ended December 31, 2017) of which \$4,347 is in trade and other payables as at December 31, 2018 (2017 - \$2,651).

The Vendor is currently a director of the Company and holds half of the US operating loan (\$1,023,150 at December 31, 2018), half of the earn-out liability (\$2,180,030 at December 31, 2018) and half of the convertible note (\$3,378,392 at December 31, 2018). 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.

### *Compensation of key management personnel*

The remuneration of directors and other members of key management personnel during the years ended December 31, 2018 and 2017 were as follows:

| | | **2018** | | 2017 |
|---|---|---|---|---|
| Short term employment benefits | **\$** | **454,865** | \$ | 433,532 |
| Non-cash stock based compensation | | **16,280** | | 1,347 |
| | **\$** | **471,145** | \$ | 434,879 |

## 27. Financial instruments and risk management

Set out below is a comparison, by category, of the carrying amounts and fair values of all of the Company financial instruments that are carried in the consolidated financial statements and how the fair value of financial instruments are measured.

**Other financial liabilities**

Other financial liabilities are initially measured at fair value and are subsequently measured at amortized cost using the effective interest rate method, with interest expense recognized on an effective yield basis. Liabilities in this category include bank overdraft, bank operating loan, US operating loan, trade and other payables, loan and long-term debt**.**

**Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

**Fair values**

The fair values of cash and cash equivalents, term deposits, trade and other receivables, bank overdraft, bank operating loan, US operating loan, and trade and other payables approximate their carrying values due to the relatively short periods to maturity of these instruments.

The fair value of the BDC Financing loans approximate its carrying value as the debt rate floats with prime and is representative of market rates offered to the Company.

The fair value of the share acquisition loans has been determined using a market rate of interest.

The fair value of the secured debenture approximates its carrying value as the interest rate is a market rate for similar instruments offered to the Company.

The fair value of the convertible debenture approximates its carrying value as the interest rate used to discount the host debt contract approximates a market rate for similar instruments offered to the Company.

The Company has no plans to prepay any debt instruments prior to maturity.

Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The Company classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in level 1. Prices in level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place. The embedded derivatives related to the conversion and prepayment features on the convertible note are measured based on level 2 (note 17)

## 27. Financial instruments and risk management *(continued)*

Level 3 – Valuations in this level are those with inputs for the assets or liabilities that are not based on observable market date. The earn-out liability is measured at level 3 (note16).

There were no transfers between level 1, 2 and 3 inputs during the year.

**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.

(a) Interest Rate Risk
The BDC Financings, which had a balance of $3,115,015 outstanding at December 31, 2018, the bank operating loan, which had a balance at December 31, 2018 of $1,205,443, and the US operating loan, which had a balance at December 31, 2018 of $1,023,150 are subject to floating market rates. Based on the floating rate debt outstanding as at December 31, 2018, a 1% increase/decrease in interest rates would result in a decrease/increase in net loss attributable to common shareholders of approximately $39,000.

(b) 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 December 31, 2018, 6 customers accounted for approximately 51% of trade receivables (at December 31, 2017, 9 customers accounted for approximately 92% of trade receivables). For the years ended December 31, 2018 and 2017, 3 customers each accounted for over 6% of revenue and 9% of revenue respectively. At December 31, 2018, the Company had $653,353 of cash and cash equivalents (2017 - $42,933), an $80,000 term deposit (2017 - $80,000) and $43,874 (2017 - $48,367) of fair valued share acquisition loans that are outstanding with two officers, and a former officer of the Company.

*(in Canadian dollars)*

## 27. Financial instruments and risk management *(continued)*

(c) 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 to meet its financial obligations.

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

| | 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** |
| Finance 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** |
| **As at December 31, 2017** | | | | |
| 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 |
| Convertible note | - | - | - | - |
| Finance lease obligations | 62,606 | 135,287 | 43,181 | 241,074 |
| | $ 1,102,564 | $ 1,525,749 | $ 516,804 | $ 3,145,117 |

## 27. Financial instruments and risk management *(continued)*

(d) 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 December 31, the following balances are denominated in USD:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Cash and cash equivalents | **$** | **477,244** | $ | 32,136 |
| Trade and other receivables | **$** | **1,355,817** | $ | 39,191 |
| Prepaid expenses and deposits | **$** | **62,916** | $ | 10,127 |
| Trade and other payables | **$** | **1,148,915** | $ | 8,148 |
| US operating loan | **$** | **750,000** | $ | - |
| Long term debt | **$** | **1,650,000** | $ | - |
| Finance lease obligations | **$** | **49,242** | $ | - |
| Earn-out liability | **$** | **1,598,028** | $ | - |
| Convertible note | **$** | **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 December 31, 2018 a 5% increase/decrease of the USD against the Canadian dollar would result in an increase/decrease in net loss of approximately $281,800.

*(in Canadian dollars)*

## 28. Capital management

Management defines capital as the Company's total shareholders' equity, its debt and finance lease obligations. The Board of Directors does not establish a quantitative return on capital for management, but rather promotes year over year sustainable profitable growth. The Company's current objective when managing capital is to increase the Company's 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.

Management reviews its capital management approach on an ongoing basis. There were no material changes to this approach during the year ended December 31, 2018. The Company is subject to externally imposed financial covenants with its bank operating loan and long term debt loan 5 and certain restrictions imposed by the Secured Debenture. As at December 31, 2018, the Company was not in compliance with the financial covenants related to its bank operating loan (see Note 11 and Note 31).

### Total capitalization

| | | **2018** | | 2017 |
|---|---|---|---|---|
| Bank operating loan (*Note 11*) | **$** | **1,205,443** | $ | - |
| US operating loan *(Note 12)* | | **1,023,150** | | - |
| Long term debt *(Note 14)* | | **4,115,015** | | 2,213,227 |
| Finance lease obligations *(Note 15)* | | **288,953** | | 241,074 |
| Convertible note *(Note 17)* | | **3,378,392** | | - |
| Total debt | | **10,010,953** | | 2,454,301 |
| Shareholders' equity | | **4,745,575** | | 3,384,945 |
| | **$** | **14,756,528** | $ | 5,839,246 |

## 29. Commitments

As at December 31, 2018, the Company had annual operating lease commitments for facilities of $451,118 for 2019. There are no material other operating leases. The operating lease commitments is $1,085,422 for the next five years.

Operating lease payments, net of sub lease rental, recognized as expenses were $376,576 for the year ended December 31, 2018 ($326,470 for the year ended December 31, 2017).

*(in Canadian dollars)*

## 30. Geographical segmented information

The Company has one operating segment and its primary business is the supply and placement of cellular concrete. It currently markets its services in Canada and the U.S. The tables below, present the sales to external customers for the years ended December 31, 2018 and 2017 and the total non-current assets attributable to the Company's geographical segments as at December 31, 2018 and 2017:

| | **2018** | 2017 |
|---|---|---|
| Sales to external customers | | |
| Canada | **$ 9,251,914** | $ 7,713,906 |
| U.S. | **8,308,802** | - |
| | **$ 17,560,716** | $ 7,713,906 |

| | **2018** | 2017 |
|---|---|---|
| Total non-current assets | | |
| Canada | **$ 4,729,195** | $ 4,933,555 |
| U.S. | **9,150,602** | 22,244 |
| | **$ 13,879,797** | $ 4,955,799 |

## 31. Subsequent Events

At December 31, 2018, Cematrix (Canada) Inc. was not in compliance with its bank operating loan covenants. Subsequent to December 31, 2018, the Bank provided a loan covenant waiver.