

CEMATRIX CORPORATION
Condensed Consolidated Financial Statements
(in Canadian dollars)
March 31, 2019

**Management's Responsibility for Financial Reporting and Notice of No Auditor
Review of the Interim Condensed Consolidated Financial Statements for the Three Months
Ended March 31, 2019**

To the Shareholders:

CEMATRIX CORPORATION

Management has responsibility for preparing the accompanying condensed consolidated financial statements. The condensed 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 condensed 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 condensed 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 condensed 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 to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee reviews the interim condensed consolidated financial statements and reports its findings to the Board for approval.

The Company's external auditor MNP LLP, an independent firm of Chartered Accountants, has not performed a review of these interim condensed consolidated financial statements.

May 27, 2019

Signed "James Chong" _____ Chief Financial Officer
James Chong, CPA, CA

CEMATRIX CORPORATION

Condensed Consolidated Statements of Financial Position

*As at March 31, 2019 (unaudited) and December 31, 2018 (audited)
(in Canadian Dollars)*

	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 255,710	\$ 653,353
Term deposit	80,000	80,000
Trade and other receivables (note 6)	4,581,593	5,175,857
Inventory (note 7)	526,475	370,137
Prepaid expenses and deposits	164,166	218,946
Share acquisition loans (note 8)	44,557	43,874
	5,652,501	6,542,167
Non Current Assets		
Property and equipment	5,989,086	5,451,930
Goodwill and intangibles (note 9)	7,031,576	7,284,567
Deferred tax asset	1,247,480	1,143,300
	14,268,142	13,879,797
Total Assets	\$ 19,920,643	\$ 20,421,964
LIABILITIES and EQUITY		
Current Liabilities		
Bank overdraft	\$ 29,646	\$ 533,715
Bank operating loan (note 10)	1,276,785	1,205,443
US operating loan (note 11)	1,001,250	1,023,150
Trade and other payables (note 12)	2,139,170	1,993,040
Current portion of long term debt (note 13)	690,837	697,407
Current portion of lease obligations (note 14)	272,762	167,672
Current portion of earn-out liability (note 15)	1,092,387	1,051,772
	6,502,837	6,672,199
Non Current Liabilities		
Long term debt (note 13)	3,554,374	3,417,608
Lease obligations (note 14)	617,345	121,281
Earn-out liability (note 15)	1,153,233	1,128,258
Convertible note (note 16)	3,450,696	3,378,392
Deferred tax liability	862,078	958,651
	9,637,726	9,004,190
Total Liabilities	16,140,563	15,676,389
SHAREHOLDERS' EQUITY		
Share capital (note 17)	9,140,676	9,140,676
Contributed surplus	1,259,722	1,333,448
Accumulated other comprehensive loss	164,304	327,215
Deficit	(6,784,622)	(6,055,764)
Total Shareholders' Equity	3,780,080	4,745,575
Total Liabilities and Shareholders' Equity	\$ 19,920,643	\$ 20,421,964

Approved on behalf of the Board

Signed "Jeffrey Kendrick" Director

Signed "Steve Bjornson" Director

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

CEMATRIX CORPORATION
Consolidated Statements of Loss and Comprehensive Loss
For the three months ended March 31 (unaudited)
(in Canadian Dollars)

	2019	2018
Revenue (note 27)	\$ 3,185,726	\$ 1,476,468
Cost of sales (note 18)	(2,665,518)	(1,304,333)
Gross margin	520,208	172,135
Operating expenses		
General and administrative	(603,367)	(271,039)
Sales, marketing and engineering	(443,743)	(241,780)
Total operating expenses	(1,047,110)	(512,819)
Operating loss	(526,902)	(340,684)
Non-cash stock based compensation (note 22)	(34,117)	(5,366)
Finance costs (note 19)	(216,844)	(53,950)
Other income (expenses) (note 20)	181,583	(2,484)
Loss before other items	(596,280)	(402,484)
Amortization of intangibles (note 9)	(122,865)	-
Business acquisition costs (note 5)	(48,868)	-
Accretion costs (note 19)	(132,025)	894
Non-cash fair value of derivatives (note 16)	(119,547)	-
Loss before income taxes	(1,019,585)	(401,590)
Recovery of deferred taxes	182,884	84,812
Net loss attributable to the common shareholders	(836,701)	(316,778)
Other comprehensive income (loss)		
Items that may be reclassified subsequent to profit or loss:		
Unrealized foreign exchange gain (loss) on translation of foreign subsidiaries	(162,911)	2,403
Total comprehensive loss	\$ (999,612)	\$ (314,375)
Loss per common share (note 21)		
Basic	\$ (0.019)	\$ (0.009)
Diluted	\$ (0.019)	\$ (0.009)
Weighted average number of common shares (note 21)		
Basic	44,480,769	34,475,994
Diluted	44,480,769	34,475,994

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

CEMATRIX CORPORATION
Condensed Consolidated Statements of Changes in Shareholders' Equity

*For the three months ended March 31 (unaudited)
(in Canadian Dollars)*

	Share Capital	Contributed Surplus	Accumulated other Comprehensive income (loss)	Deficit	Total Shareholders' Equity
Balance at December 31, 2018	\$ 9,140,676	\$ 1,333,448	327,215	\$ (6,055,764)	\$ 4,745,575
Non-cash stock based compensation (<i>note 22</i>)	-	34,117	-	-	34,117
Reclassification of contributed surplus to deficit (<i>note 22</i>)	-	(107,843)	-	107,843	-
Net loss attributable to common shareholders	-	-	-	(836,701)	(836,701)
Unrealized foreign exchange gain on translation of foreign subsidiaries	-	-	(162,911)	-	(162,885)
Balance at March 31, 2019	\$ 9,140,676	\$ 1,259,722	164,304	\$ (6,784,622)	\$ 3,780,080
Balance at December 31, 2017	\$ 7,495,530	\$ 903,153	(36,947)	\$ (4,976,791)	\$ 3,384,945
Non-cash stock based compensation (<i>note 22</i>)	-	5,366	-	-	5,366
Net loss attributable to common shareholders	-	-	-	(316,778)	(316,778)
Unrealized foreign exchange gain on translation of foreign subsidiaries	-	-	2,403	-	2,403
Balance at March 31, 2018	\$ 7,495,530	\$ 908,519	(34,544)	\$ (5,293,569)	\$ 3,075,936

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

CEMATRIX CORPORATION

Condensed Consolidated Statements of Cash Flows

*For the three months ended March 31 (unaudited)
(in Canadian Dollars)*

	2019	2018
Cash generated from (used in):		
Operating activities		
Net loss attributable to common shareholders	\$ (836,701)	\$ (316,778)
Add (deduct) non-cash items		
Recovery of deferred taxes	(182,884)	(84,812)
Depreciation and amortization	385,850	100,372
Non-cash stock based compensation (note 22)	34,117	5,366
Loss on sale of equipment (note 20)	1,084	-
Unrealized foreign exchange losses	(116,710)	-
Non-cash accretion of convertible note and earn-out (notes 16 and 15)	132,490	-
Non-cash accretion of share acquisition loans (note 8)	(465)	(894)
Non-cash fair value of adjustment in derivative liability (note 16)	119,547	-
Non-cash interest on share acquisition loans (note 8)	(218)	-
	(463,890)	(296,746)
Net change in non-cash working capital items (note 23)	601,648	(713,560)
Cash generated from (used in) operating activities	137,758	(1,010,306)
Investing activities		
Purchase of property and equipment	(243,538)	(4,071)
Proceeds on sale of property and equipment (note 20)	41,000	-
Purchase of intangibles (note 9)	(11,046)	(51,788)
Net cash used in investing activities	(213,584)	(55,859)
Financing activities		
Proceeds from bank operating loan	71,342	882,385
Proceeds from long term debt	178,376	-
Proceeds from government grants on intangibles (note 9)	-	16,775
Repayment of lease obligations	(51,383)	(14,585)
Cash generated from financing activities	198,335	884,575
Foreign exchange effect on cash	(16,083)	2,403
Increase (decrease) in cash	106,426	(179,187)
Cash, beginning of period	119,638	12,120
Cash (Cash Deficiency), end of period	226,064	(191,307)
Cash (Cash Deficiency)		
Cash and cash equivalents	255,710	37,696
Bank overdraft	(29,646)	(229,003)
	\$ 226,064	\$ (191,307)
Supplemental Information		
Finance costs paid during the period	\$ 185,294	\$ 53,542

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

CEMATRIX CORPORATION

Notes to the Condensed Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018
(in Canadian dollars)

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 condensed consolidated financial statements of the Company for the three months ended March 31, 2019 were authorized for issue in accordance with a resolution of the Board of Directors on May 27, 2019.

2. Basis of preparation

Statement of compliance

These condensed consolidated financial statements for the three months ended March 31, 2019 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”).

The condensed consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements for the year ended December 31, 2018 and the condensed consolidated financial statements for the three months ended March 31, 2019.

Basis of measurement

These condensed 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 condensed 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 condensed 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 condensed consolidated financial statements are disclosed in note 3.

Functional and presentation currency

These condensed 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”).

CEMATRIX CORPORATION

Notes to the Condensed Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018
(in Canadian dollars)

3. Significant accounting judgements, estimates and assumptions

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

The key sources of these uncertainties that have a significant risk of causing material adjustment to the amounts recognized in the condensed consolidated financial statements are described in Note 3 of the audited consolidated financial statements for the year ended December 31, 2018. There have been no changes since that date.

4. Significant accounting policies

The significant accounting policies of the Company are outlined in Note 4 of the audited condensed consolidated financial statements for the year ended December 31, 2018. There have been no changes since that date other than what is outlined below.

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

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

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

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

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

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

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

CEMATRIX CORPORATION
Notes to the Condensed Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018
(in Canadian dollars)

4. Significant accounting policies *(continued)*

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

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

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

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

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

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

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

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

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

5. Business acquisitions

On January 18, 2019 the Company announced a letter of intent for the proposed acquisition of Pacific International Grout Company. The acquisition provides a platform for long-term growth opportunities and diversification into new markets. Acquisition costs associated with this transaction were \$48,868 as of March 31, 2019.

CEMATRIX CORPORATION
Notes to the Condensed Consolidated Financial Statements

*For the three months ended March 31, 2019 and 2018
(in Canadian dollars)*

6. Trade and other receivables

Trade and other receivables consist of the following components as at March 31, 2019 and December 31, 2018:

	2019	2018
Trade receivables	\$ 4,269,288	\$ 4,651,775
Holdbacks	252,848	434,804
Other receivables	59,457	89,278
	\$ 4,581,593	\$ 5,175,857

Trade receivables and holdbacks are unsecured, 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 March 31, 2019 and December 31, 2018:

	2019	2018
1-30 days	\$ 1,408,941	\$ 2,033,188
31-60 days	966,955	1,855,030
61-90 days	1,088,108	607,102
Greater than 90 days	805,284	156,455
	\$ 4,269,288	\$ 4,651,775

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 March 31, 2019 and December 31, 2018:

	2019	2018
Raw materials (principally foaming agent)	\$ 521,050	\$ 364,712
Spare parts and marketing material	5,425	5,425
	\$ 526,475	\$ 370,137

Inventory expensed as part of cost of sales was \$579,511 and \$56,357 respectively, for the three months ended March 31, 2019 and 2018,. There were no inventory write-downs in either 2019 or 2018.

CEMATRIX CORPORATION
Notes to the Condensed Consolidated Financial Statements

*For the three months ended March 31, 2019 and 2018
(in Canadian dollars)*

8. Share acquisition loans

Share acquisition loans consist of the following components as at March 31, 2019 and December 31, 2018:

	2019	2018
Share acquisition loans, beginning of period	\$ 45,743	\$ 53,812
Repayments	-	(8,563)
Interest	218	494
Share acquisition loans, end of period	45,961	45,743
Non-cash fair value adjustment, beginning of period	(1,869)	(5,445)
Accretion of non-cash fair value adjustment	465	3,576
Non-cash fair value adjustment, end of period	(1,404)	(1,869)
	\$ 44,557	43,874

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 \$17,126 and \$5,500 amounts are 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.

CEMATRIX CORPORATION
Notes to the Condensed Consolidated Financial Statements

*For the three months ended March 31, 2019 and 2018
(in Canadian dollars)*

9. Goodwill and intangibles

Goodwill and intangibles consist of the following components as at March 31, 2019 and December 2018:

	Foaming agent technology	Process licenses	Trademarks	Product testing costs	Sales backlog	Goodwill	Total
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
Cost							
At December 31, 2018	315,000	141,110	9,006	249,188	661,720	6,191,953	7,567,977
Additions	-	-	-	11,046	-	-	11,046
Exchange difference	-	-	-	-	(8,637)	(132,535)	(141,172)
At March 31, 2019	315,000	141,110	9,006	260,234	653,083	6,059,418	7,437,851
Accumulated amortization							
At December 31, 2018	-	-	-	-	(283,410)	-	(283,410)
Amortization	-	-	-	-	(122,865)	-	(122,865)
At March 31, 2019	-	-	-	-	(406,275)	-	(406,275)
Net book value							
At March 31, 2019	315,000	141,110	9,006	260,234	246,808	6,059,418	7,031,576

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.

CEMATRIX CORPORATION

Notes to the Condensed Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018
(in Canadian dollars)

9. Goodwill and intangibles (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. For the three months ended March 31, 2019 the Company incurred expenditures of \$11,046, including capitalized labour costs of approximately \$974 and \$nil government grants received (year ended December 31, 2018 - \$91,767, \$26,269 and \$16,775, respectively).

The sales backlog and goodwill were the result of the acquisition of MOS. 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.

10. Bank operating loan

CEMATRIX's wholly owned subsidiary, CEMATRIX (Canada) Inc. has 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 5.95%, which is set at the greater of 4.70% or 2% above the Bank's prime lending rate. The Loan 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 a general security agreement providing a second 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 March 31, 2019 was \$1,436,000, of which \$1,276,785 was outstanding as at March 31, 2019 (\$1,205,443 at December 31, 2018).

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. The consolidated cash flow coverage ratio is only calculated annually whereas the other ratios are calculated monthly. At March 31, 2019, Cematrix (Canada) Inc. was not in compliance with it's covenants. Subsequent to the quarter end, the Bank has provided tolerance on these tests for the three months ended March 31, 2019 (see Note 28).

CEMATRIX CORPORATION

Notes to the Condensed Consolidated Financial Statements

*For the three months ended March 31, 2019 and 2018
(in Canadian dollars)*

11. 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 March 31, 2019 and had a Canadian equivalent value of \$1,001,250.

12. Trade and other payables

Trade and other payables consist of the following components as at March 31, 2019 and December 31, 2018:

	2019	2018
Trade payables	\$ 1,465,018	\$ 1,388,756
Accrued interest	24,082	23,374
Other accruals	262,342	99,855
Payroll remittance and goods & services tax	387,728	481,055
	\$ 2,139,170	\$ 1,993,040

13. Long term debt

Long term debt consists of the following components as at March 31, 2019 and December 31, 2018:

	Maturity	Interest rate	2019	2018
BDC financing				
Loan 1	October 1, 2020	Floating	\$ 334,770	\$ 334,770
Loan 2	December 1, 2022	Floating	333,120	333,120
Loan 3	September 1, 2024	Floating	316,971	138,595
Loan 4	September 1, 2021	Floating	57,600	57,600
Loan 5	August 1, 2026	Floating	2,202,750	2,250,930
			3,245,211	3,115,015
Secured debenture	July 1, 2020	Fixed	1,000,000	1,000,000
			4,245,211	4,115,015
Less current portion			(690,837)	(697,407)
			\$ 3,554,374	\$ 3,417,608

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13. 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 are required 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 March 31, 2019, \$316,971 has been drawn down on this loan; \$178,376 was drawn down in the quarter ending March 31, 2019. The remaining \$146,069 available funding has a lapse date of April 24, 2019. 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 7.00%. 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 March 31, 2019, the Canadian dollar equivalent of this was \$2,202,750. The difference being \$129,870 which is the net of principal repayments of \$195,990 being offset by \$66,120 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.

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13. 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 March 31, 2019.

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.

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. The principal repayment was extended to February 2018 in April 2016, to February 2019 in February 2017, to February 2020 in May 2018 and to July 2020 in February 2019, with no other items being amended. 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 Company’s aggregate after tax earnings from the date the Secured Debenture was issued, without prior consent from the lender.

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14. Lease obligations

Lease obligations, which relate to a building, vehicles and equipment, bear interest between 5.7% to 14.2% and are repayable in monthly installments. The leases have a carrying value of \$797,790 (2018 - \$353,083). The annual future commitments and are as follows:

2019/2020	\$	331,315
2020/2021		239,778
2021/2022		210,356
2022/2023		176,695
2023/2024		73,584
		1,031,728
Less imputed interest		(141,621)
		890,107
Current portion		(272,762)
		617,345
		\$ 617,345

New lease obligations of \$643,632 were incurred during the three month period ended March 31, 2019 and relate entirely to the adoption of IFRS 16 on January 1, 2019 and it's affect on a pre-existing building lease. (\$nil during the three months ended March 31, 2018).

15. 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.

	2019	2018
Value of liability, beginning of period	\$ 2,180,030	\$ 1,542,121
Revaluation in the period	-	305,031
Accretion expense	111,790	243,032
Exchange difference	(46,200)	89,846
Value of liability, end of period	2,245,620	2,180,030
Current portion	(1,092,387)	(1,051,772)
	\$ 1,153,233	\$ 1,128,258

CEMATRIX CORPORATION

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16. 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 March 31, 2019 and December 31, 2018 used the following assumptions:

	March 31, 2019	December 31, 2018
Estimated fair value per common share	\$0.12	\$0.07
Common share price	\$0.25	\$0.18
Risk-free interest rate	1.84%	1.84%
Expected life	2.2 years	2.4 years
Expected volatility in stock price	80.0 %	80.0 %
Expected annual dividend yield	nil	nil
Estimated forfeiture rate	nil	nil
Prepayment penalty	5% - 10%	5% - 10%

Convertible note consists of the following components as at March 31, 2019 and December 31, 2018.

	Host Debt Contract	Prepayment Feature	Conversion Feature	Total
At May 31, 2018	2,974,515	(1,100,695)	1,365,930	3,239,750
Accretion expense	45,403	-	-	45,403
Unrealized foreign exchange loss	158,496	-	-	158,496
Fair value adjustment loss (gain)	-	328,201	(393,458)	(65,257)
At December 31, 2018	3,178,414	(772,494)	972,472	3,378,392
Accretion expense	20,700	-	-	20,700
Unrealized foreign exchange gain	(67,943)	-	-	(67,943)
Fair value adjustment loss (gain)	-	(478,186)	597,733	119,547
At March 31, 2019	3,131,171	(1,250,680)	1,570,205	3,450,696

CEMATRIX CORPORATION
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17. 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 three months ended March 31, 2019 and the year ended December 31, 2018:

	2019		2018	
	Number Of Shares	\$ Amount	Number Of Shares	\$ Amount
Common shares, beginning of period	44,480,769	\$9,140,676	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	-	-	3,343,421	735,553
Reclassification of warrants	-	-	-	(400,074)
Common shares, end of period	44,480,769	\$9,140,676	44,480,769	\$9,140,676

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.

CEMATRIX CORPORATION

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17. Share capital (continued)

The Company has issued 3,263,177 share purchase warrants as of March 31, 2019. 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 three months ended March 31, 2019 and the year ended December 31, 2018 which is recorded in contributed surplus:

	2019		2018	
	Number Of Shares	Amount	Number Of Shares	Amount
Warrants, beginning of year	3,263,177	\$ 400,074	-	\$ -
Private placement	-	-	3,263,177	400,074
Warrants, end of year	3,263,177	\$ 400,074	3,263,177	\$ 400,074

18. Cost of sales

Cost of sales consists of the following components for the three months ended March 31, 2019 and 2018:

	2019		2018	
Manufacture of cellular concrete				
Materials	\$ 1,183,042		\$ 597,377	
Direct labour	782,933		364,176	
Variable expenses	398,846		170,019	
Fixed overhead	83,711		79,984	
Depreciation	216,986		92,777	
	\$ 2,665,518		\$ 1,304,333	

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19. Finance costs

The finance costs incurred for the three months ended March 31, 2019 and 2018 are as follows:

	2019	2018
Interest		
BDC Financings	\$ 68,253	\$ 23,759
Secured Debenture	22,500	22,500
Convertible Note	71,901	-
Lease obligations	17,202	3,847
Bank operating loan	15,447	2,240
US operating loan	20,723	-
Share acquisition loans	(218)	-
Other	1,036	1,604
	\$ 216,844	53,950

The accretion costs incurred for three months ended March 31, 2019 and 2018 are as follows:

	2019	2018
Accretion		
Accretion of share acquisition loans (note 8)	\$ (465)	\$ (894)
Accretion of convertible note (note 16)	20,700	-
Accretion of earn-out liability (note 15)	111,790	-
	\$ 132,025	(894)

20. Other income (expenses)

Other income (expenses) for the three months ended March 31, 2019 and 2018 consists of the following:

	2019	2018
Unrealized foreign exchange gains	\$ 116,710	\$ -
Realized foreign exchange gains (losses)	42,128	(2,484)
Loss on sale of equipment	(1,084)	-
Equipment rental	23,700	-
Other	129	-
	\$ 181,583	\$ (2,484)

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.

In 2019 the Company sold three vehicles, which had a book value of \$42,084, for proceeds of \$41,000.

CEMATRIX CORPORATION
Notes to the Condensed Consolidated Financial Statements

*For the three months ended March 31, 2019 and 2018
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21. Loss per common share

The number of common shares included in the computation of basic and diluted loss per common share for the three months ended March 31, 2019 and is as follows:

	2019	2018
Weighted average common shares outstanding – basic	44,480,769	34,475,994
Effect of dilutive instruments	-	-
Weighted average common shares outstanding – diluted	44,480,769	34,475,994

The stock options for the three months ended March 31, 2019 and 2018 have no dilutive effect as the Company incurred losses during these periods.

22. 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 March 31, 2019, the Company had 3,320,000 shares reserved for the issuance of existing stock options (December 31, 2018 – 4,220,000).

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.

During the three months ended March 31, 2019, 900,000 vested options expired and were not exercised.

The following table summarizes the changes in options for the three months ended March 31, 2019 and year ended December 31, 2018:

	2019		2018	
	Number of Options	Weighted average price	Number of Options	Weighted average price
Outstanding, beginning of period	4,220,000	\$0.230	3,275,000	\$0.230
Granted	-	-	1,295,000	\$0.200
Exercised	-	-	(300,000)	\$0.145
Expired	(900,000)	\$0.145	(50,000)	\$0.240
Outstanding, end of period	3,320,000	\$0.230	4,220,000	\$0.230
Exercisable, end of period	1,991,667	\$0.240	2,891,667	\$0.230

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22. Non-cash stock based compensation (continued)

The following table summarizes the stock options to acquire common shares outstanding as at March 31, 2019:

Grant Date	Number Options	Number of Options Exercisable	Exercise Price (\$)	Weighted average remaining life (years)	Expiry Date
October 22, 2014	1,575,000	1,575,000	0.24	0.56	October 22, 2019
March 5, 2015	100,000	100,000	0.20	0.93	March 5, 2020
April 15, 2015	150,000	150,000	0.19	1.04	April 15, 2020
May 4, 2016	100,000	66,668	0.43	1.10	May 4, 2020
August 2, 2017	100,000	33,333	0.18	3.34	August 2, 2022
April 30, 2018	250,000	-	0.20	4.08	April 30, 2023
May 31, 2018	500,000	-	0.20	2.17	May 31, 2021
August 28, 2018	345,000	-	0.20	4.41	August 28, 2023
November 12, 2018	200,000	66,666	0.25	2.62	November 12, 2020
	3,320,000	1,991,667	0.23		

Non-cash stock based compensation for the three months ended March 31, 2019 and 2018 was a cost of \$34,117 and \$5,366, respectively. 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.

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:

	2019	2018
Estimated fair value per option	-	\$0.14 - \$0.19
Weighted average common share price	-	\$0.22
Risk-free interest rate	-	1.99%
Expected life	-	3 years
Expected volatility in stock price	-	101 - 112%
Expected annual dividend yield	-	nil
Estimated forfeiture rate	-	nil

In March 2019 the Company reclassified \$107,843 from contributed surplus to deficit related to non-cash stock based compensation for fully vested option grants that had expired without being exercised.

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23. 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 three months ended March 31, 2019 and 2018.

	2019	2018
Trade and other receivables	\$ 585,145	\$ (1,030,949)
Inventory	(157,913)	17,268
Prepaid expenses and deposits	53,047	(30,284)
Trade and other payables	121,596	330,405
	\$ 601,875	\$ (713,560)

24. Related party transactions

During the three months ended March 31, 2019, the Company incurred legal fees from a firm which employs one of the directors of the Company in the amount of \$nil (\$nil for the three months ended year ended March 31, 2018) of which \$nil is in trade and other payables as at March 31, 2019 (December 31, 2018 - \$4,347).

The Vendor is currently a director of the Company and holds half of the US operating loan (\$1,001,250 at March 31, 2019), half of the earn-out liability (\$2,245,620 at March 31, 2019) and half of the convertible note (\$3,450,696 at March 31, 2019). The Vendor is also a consultant and is entitled to an annual consulting fee of \$20,000 USD over the term of the agreement which is 3 years from May 31, 2018.

25. 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 condensed 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.

CEMATRIX CORPORATION

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25. Financial instruments and risk management (continued)

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 for similar instruments.

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 16)

Level 3 – Valuations in this level are those with inputs for the assets or liabilities that are not based on observable market data. The earn-out liability is measured at level 3 (note 15).

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 \$3,245,211 outstanding at March 31, 2019, the bank operating loan, which had a balance at March 31, 2019 of \$1,276,785, and the US operating loan, which had a balance at March 31, 2019 of \$1,001,250 are subject to floating market rates. Based on the floating rate debt outstanding as at March 31, 2019, a 1% increase/decrease in interest rates would result in a decrease/increase in net loss attributable to common shareholders of approximately \$48,700.

(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.

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*For the three months ended March 31, 2019 and 2018
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25. Financial instruments and risk management *(continued)*

(b) Credit Risk *(continued)*

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 March 31, 2019, 6 customers accounted for approximately 67.6% of trade receivables (at December 31, 2018, 6 customers accounted for approximately 51% of trade receivables). For the three months ended March 31, 2019, 8 customers each accounted for over 84.65% of revenue. At March 31, 2019, the Company had \$255,710 of cash and cash equivalents (2018 - \$653,353), an \$80,000 term deposit (2018 - \$80,000) and \$44,557 (2018 - \$48,874) of fair valued share acquisition loans that are outstanding with two officers, and a former officer of the Company.

(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 March 31, 2019 and December 31, 2018 based on contractual undiscounted payments.

	Less than 1 year	1 to 2 years	2 to 6 years	Total
As at March 31, 2019				
Bank overdraft	\$ 29,646	\$ -	\$ -	\$ 29,646
Bank operating loan	1,276,785	-	-	1,276,785
US operating loan	1,001,250	-	-	1,001,250
Trade and other payables	2,139,170	-	-	2,139,170
Long-term debt	690,837	1,623,883	1,930,491	4,245,211
Lease obligations	272,762	235,284	382,061	890,107
Earn-out liability	1,092,387	598,659	554,574	2,245,620
Convertible note	-	-	3,450,696	3,450,696
	\$ 6,502,837	\$ 2,457,826	\$ 6,317,822	\$ 15,278,485
As at December 31, 2018				
Bank overdraft	\$ 533,715	\$ -	\$ -	\$ 533,715
Bank operating loan	1,205,443	-	-	1,205,443
US operating loan	1,023,150	-	-	1,023,150
Trade and other payables	1,993,040	-	-	1,993,040
Long-term debt	697,407	2,004,233	1,413,375	4,115,015
Lease obligations	167,672	118,771	2,510	288,953
Earn-out liability	1,051,772	594,304	533,954	2,180,030
Convertible note	-	-	3,378,392	3,378,392
	\$ 6,672,199	\$ 2,717,308	\$ 5,328,231	\$ 14,717,738

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25. 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 March 31, 2019 and December 31, 2018 the following balances are denominated in USD:

		2019		2018
Cash and cash equivalents	\$	189,083	\$	477,244
Trade and other receivables	\$	1,770,237	\$	1,355,817
Prepaid expenses and deposits	\$	55,964	\$	62,916
Trade and other payables	\$	819,055	\$	1,148,915
US operating loan	\$	750,000	\$	750,000
Long term debt	\$	1,650,000	\$	1,650,000
Lease obligations	\$	514,671	\$	49,242
Earn-out liability	\$	1,682,112	\$	1,598,028
Convertible note	\$	2,345,477	\$	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 March 31, 2019 a 1% increase/decrease of the USD against the Canadian dollar would result in an increase/decrease in net loss of approximately \$56,000.

CEMATRIX CORPORATION

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26. Capital management

Management defines capital as the Company's total shareholders' equity, its debt and 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 three months ended March 31, 2019. 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 March 31, 2019, the Company was not in compliance with the financial covenants related to its bank operating loan (see Note 10 and Note 28).

The total capitalization as at March 31, 2019 and December 31, 2018 is outlined below:

	2019	2018
Bank operating loan (Note 10)	\$ 1,276,785	\$ 1,205,443
US operating loan (Note 11)	1,001,250	1,023,150
Long term debt (Note 13)	4,245,211	4,115,015
Lease obligations (Note 14)	890,107	288,953
Convertible note (Note 16)	3,450,696	3,378,392
Total debt	10,864,049	10,010,953
Shareholders' equity	3,780,080	4,745,575
	\$ 14,644,129	\$ 14,756,528

27. 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 three months ended March 31, 2019 and 2018 and the total non-current assets attributable to the Company's geographical segments as at March 31, 2019 and December 31, 2018:

	2019	2018
Sales to external customers		
Canada	\$ 1,338,865	\$ 1,476,468
U.S.	1,846,861	-
	\$ 3,185,726	\$ 1,476,468

	2019	2018
Total non-current assets		
Canada	\$ 4,956,291	\$ 4,729,195
U.S.	9,311,851	9,150,602
	\$ 14,268,142	\$ 13,879,797

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28. Subsequent Events

At March 31, 2019, Cematrix (Canada) Inc. was not in compliance with its bank operating loan covenants. Subsequent to March 31, 2019, the Bank provided tolerance of these loan covenants.