CEMATRIX CORPORATION
Consolidated Financial Statements
(in Canadian dollars)
December 31, 2019 And 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 27, 2020

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, 2019 and December 31, 2018, and the consolidated statements of loss and 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, 2019 and December 31, 2018, 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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.
- 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 27, 2020

Chartered Professional Accountants

MNP

CEMATRIX CORPORATION
Consolidated Statements of Financial Position
As at December 31
(in Canadian Dollars)

		2019		2018
ASSETS				
Current Assets				
Cash and cash equivalents	$	**820,474**	$	653,353
Term deposit		**80,000**		80,000
Trade and other receivables *(note 6)*		**4,710,768**		5,175,857
Inventory *(note 7)*		**661,074**		370,137
Prepaid expenses and deposits		**323,997**		218,946
Share acquisition loans *(note 8)*		**38,071**		43,874
		6,634,384		6,542,167
Non-Current Assets				
Property and equipment *(note 9)*		**14,464,727**		5,451,930
Goodwill and intangibles *(note 10)*		**8,145,483**		7,284,567
Deferred tax asset *(note 22)*		**931,988**		1,143,300
		23,542,198		13,879,797
Total Assets	$	**30,176,582**	$	20,421,964
LIABILITIES and EQUITY				
Current Liabilities				
Bank overdraft	$	**164,414**	$	533,715
Bank operating loan *(note 11)*		**940,259**		1,205,443
US operating loan *(note 12)*		**2,186,313**		1,023,150
Trade and other payables *(note 13)*		**2,372,553**		1,993,040
Current portion of long-term debt *(note 14)*		**1,222,148**		697,407
Current portion of lease obligations *(note 15)*		**446,001**		167,672
Current portion of earn-out liability *(note 16)*		**870,678**		1,051,772
		8,202,366		6,672,199
Non-Current Liabilities				
Long-term debt *(note 14)*		**6,058,350**		3,417,608
Lease obligations *(note 15)*		**1,526,171**		121,281
Earn-out liability *(note 16)*		**647,160**		1,128,258
Convertible note *(note 17)*		**3,172,220**		3,378,392
Deferred tax liability *(note 22)*		**2,998,513**		958,651
		14,402,414		9,004,190
Total Liabilities		**22,604,780**		15,676,389
SHAREHOLDERS' EQUITY				
Share capital *(note 18)*		**10,952,706**		9,140,676
Contributed surplus		**2,945,067**		1,333,448
Accumulated other comprehensive income (loss)		**(124,365)**		327,215
Deficit		**(6,201,606)**		(6,055,764)
Total Shareholders' Equity		**7,571,802**		4,745,575
Total Liabilities and Shareholders' Equity	$	**30,176,582**	$	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 consolidated financial statements.

CEMATRIX CORPORATION

Consolidated Statements of Loss and Comprehensive Loss

For the years ended December 31
(in Canadian Dollars)

		2019		2018
Revenue *(note 29)*	**$**	**22,550,954**	$	17,560,716
Cost of sales *(note 19)*		**(16,774,497)**		(13,214,516)
Gross margin		**5,776,457**		4,346,200
Operating expenses				
General and administrative		**(3,567,264)**		(1,982,229)
Sales, marketing and engineering		**(1,855,085)**		(1,373,393)
Total operating expenses		**(5,422,349)**		(3,355,622)
Operating income		**354,108**		990,578
Non-cash stock based compensation *(note 24)*		**(464,222)**		(85,145)
Finance costs *(note 20)*		**(987,362)**		(549,284)
Other income (expenses) *(note 21)*		**1,630,468**		(222,501)
Amortization of intangibles *(note 10)*		**(557,463)**		(283,410)
Acquisition costs *(note 5)*		**(373,844)**		(619,723)
Accretion costs *(note 20)*		**(492,076)**		(284,859)
Revaluation of earn-out liability *(note 16)*		**443,127**		(305,031)
Non-cash fair value of derivatives *(note 17)*		**138,181**		65,257
Loss before income taxes		**(309,083)**		(1,294,118)
Provision of deferred taxes *(note 22)*		**168,634**		202,143
Provision of current taxes *(note 22)*		**(113,236)**		-
Income (Loss) attributable to the common shareholders		**(253,685)**		(1,091,975)
Unrealized foreign exchange (loss) gain on translation of foreign subsidiaries		**(451,580)**		364,162
Total comprehensive loss for the year	**$**	**(705,265)**	$	(727,813)
Loss per common share *(note 23)*				
Basic	**$**	(0.005)	$	(0.027)
Fully Diluted	**$**	(0.005)	$	(0.027)
Weighted average number of common shares *(note 23)*				
Basic		**49,671,572**		39,854,633
Fully Diluted		**49,671,572**		39,854,633

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, 2018	**$ 9,140,676**	**$ 1,333,448**	**327,215**	**$ (6,055,764)**	**$ 4,745,575**
Common shares issued on business acquisition *(note 18)*	**925,470**	**-**	**-**	**-**	**925,470**
Non-cash stock-based compensation *(note 24)*	**-**	**464,222**	**-**	**-**	**464,222**
Private placement *(note 18)*	**886,560**	**1,255,240**	**-**	**-**	**2,141,800**
Reclassification of contributed surplus to deficit *(note 24)*	**-**	**(107,843)**	**-**	**107,843**	**-**
Net loss attributable to common shareholders	**-**	**-**	**-**	**(253,685)**	**(253,685)**
Unrealized foreign exchange gain on translation of foreign subsidiaries	**-**	**-**	**(451,580)**	**-**	**(451,580)**
Balance at December 31, 2019	**$ 10,952,706**	**$ 2,945,067**	**(124,365)**	**$ (6,201,606)**	**$ 7,571,802**
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

		2019		2018
Cash generated from (used in):				
Operating activities				
Net loss attributable to common shareholders	$	**(253,685)**	$	(1,091,975)
Add (deduct) non-cash items				
Recovery of deferred taxes *(note 22)*		**(168,634)**		(202,143)
Depreciation and amortization *(note 9) (note 10)*		**1,775,683**		963,812
Non-cash stock based compensation *(note 24)*		**464,222**		85,145
Loss on sale of equipment *(note 21)*		**1,084**		-
Gain on business combination *(note 21)*		**(1,278,468)**		-
Unrealized foreign exchange losses (gains) *(note 21)*		**(259,443)**		273,383
Non-cash accretion of convertible debenture and earn-out *(note 20)*		**493,945**		288,435
Non-cash accretion of share acquisition loans *(note 20)*		**(1,869)**		(3,576)
Non-cash fair value of adjustment in derivative liability *(note 17)*		**(138,181)**		(65,257)
Non-cash revaluation of earn-out liability *(note 16)*		**(443,127)**		305,031
Non-cash interest on share acquisition loans *(note 20)*		**(890)**		(494)
		190,637		552,361
Net change in non-cash working capital items *(note 25)*		**61,180**		(1,653,358)
Cash generated from (used in) operating activities		**251,817**		(1,100,997)
Investing activities				
Purchase of property and equipment *(note 9)*		**(663,175)**		(33,229)
Proceeds on sale of property and equipment *(note 9)*		**41,000**		-
Purchase of intangibles *(note 10)*		**(49,136)**		(91,767)
Net cash paid on acquisition *(note 5)*		**(3,365,181)**		(2,807,985)
Repayment of share acquisition loans *(note 8)*		**8,562**		8,563
Net cash used in investing activities		**(4,027,930)**		(2,924,418)
Financing activities				
Proceeds (repayment) from bank operating loan *(note 11)*		**(265,184)**		1,139,044
Proceeds from long-term debt *(note 14)*		**4,027,485**		2,332,620
Proceeds from government grants on intangibles *(note 10)*		**-**		16,775
Repayment of finance lease obligations		**(236,763)**		(81,358)
Repayment of long term debt *(note 14)*		**(688,107)**		(545,132)
Repayment of earn-out liability *(note 16)*		**(534,436)**		-
Proceeds from private placement, net of costs *(note 18)*		**2,141,800**		1,224,245
Repayment of US operating loan *(note 12)*		**(94,160)**		-
Issue of common shares *(note 18)*		**-**		43,500
Cash generated from financing activities		**4,350,635**		4,129,694
Foreign exchange effect on cash		**(38,100)**		27,479
Increase in cash		**536,422**		131,758
Cash (Cash Deficiency), beginning of year		**119,638**		(12,120)
Cash, end of year		**656,060**		119,638
Cash (Cash Deficiency)				
Cash and cash equivalents		**820,474**		653,353
Bank overdraft		**(164,414)**		(533,715)
	$	**656,060**	$	119,638
Supplemental Information				
Finance costs paid during the year	**$**	**949,533**	$	493,989

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 9727 – 40th Street S.E., Calgary, Alberta, Canada.

Through its wholly-owned subsidiaries, Pacific International Grout Co., ("PIGCO"), 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, 2019 were authorized for issue in accordance with a resolution of the Board of Directors on April 27, 2020.

2. Basis of preparation

Statement of compliance
These consolidated financial statements for the year ended December 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").

Basis of measurement and going concern
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.

As a result of the significant macroeconomic events relating to COVID-19 that occurred subsequent to year end a material uncertainty exists as to the Corporation's ability to continue as a going concern. While the COVID-19 pandemic may present additional opportunities for the Corporation via incremental infrastructure projects, as a result of expected provincial and federal stimulus during a recovery phase, there is risk that construction sites may be shut down by order of government officials, or that slowdowns in work may be requested by customers, and/or delays in cash collections may affect the Corporation's short term cash flow and ability to make payments as they come due. There are unknowns about timing of a shutdown of construction projects, if any; the length of time of that shutdown, should it occur; the potential short term effects on the Company's business; and what government support the Company may, or may not be able to receive. These conditions, combined with the factors listed below indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Refer to Note 30 "Subsequent Events" for further details.

Other factors that were considered in the assessment of going concern include negative working capital and the breach of covenants under the Canadian Western Bank ("CWB") operating Loan (note 11) and the Business Development Bank of Canada ("BDC") loans 5 and 6 (note 14). The CWB provide has provided a general tolerance of these covenants up to and including the period ended December 31, 2019 on June 4, 2019. The BDC provided a tolerance of the covenant breech on December 31, 2019 for the period up to and including December 31, 2020.

The Company completed a $5.5 million unsecured convertible debenture financing on April 22, 2020. Refer to Note 30 "Subsequent Events" for further details.

2. Basis of preparation *(continued)*

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., MOS and PIGCO 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.

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.

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

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.

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 and Cematrix USA (2018 was CEMATRIX (Canada) Inc. and MOS). The Cematrix USA CGU includes both MOS and PIGCO in the current year, whereas the in prior year only included 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.

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), MOS (100% owned) and PIGCO (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.

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

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

E) 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) Revenue from Contracts with Customers

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 are no material changes to the timing and measurements of the Company’s revenue, as compared to the provisions of the previous standards.

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

The Company enters into contracts with customers that have performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date. The Company applies a practical expedient of IFRS 15 and does not disclose information about the remaining performance obligations that have original expected durations of one year or less, or for performance where the Company has a right to consideration from a customer in an amount that corresponds directly with the value to the customer on the Company’s performance to date.

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

4. Significant accounting policies *(continued)*

I) 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.

J) 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.

K) 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)*

L) 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.

M) Share capital

The proceeds from the exercise of share options and warrant and issuance of shares from treasury are recorded as share capital in the amount for which the option, warrant, or treasury share enabled the holder to purchase a share in the Company. Share capital issued for non-monetary consideration is recorded at an amount based on fair market value on the date the shares are issued. Commissions paid to underwriters, and other related share issue costs, such as legal, auditing and printing, on the issue of the Company's shares are charged to share capital.

The proceeds from the issue of units consisting of a common share and a share purchase warrant is allocated between common shares and common share purchase warrants on a pro-rata basis on a relative fair value basis, wherein, the fair value of the common shares is based on the market closing price on the date the units are issued; and the fair value of the common share purchase warrants is determined using the Black-Scholes pricing model.

N) 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 PIGCO, 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 (loss) on translation of foreign subsidiary in other comprehensive income (loss).

4. Significant accounting policies *(continued)*

O) 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.

P) Financial Instruments

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.

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.

4. Significant accounting policies *(continued)*

P) Financial Instruments (continued)

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	Classification under IFRS 9
Financial asset:	
Cash and cash equivalents	FVTPL
Term deposits	FVTPL
Trade and other receivables	Amortized cost
Share acquisition loans	Amortized cost
Acquisition related assets – Derivative assets	FVTPL
Financial liabilities:	
Bank overdraft	Amortized cost
Bank operating loan	Amortized cost
US operating loan	Amortized cost
Trade and other payables	Amortized cost
Long term debt	Amortized cost
Earn-out liability	FVTPL
Convertible note	Amortized cost
Acquisition related liabilities – Derivative liabilities	FVTPL

Impairment

The Company's trade and other receivables are subject to the expected credit losses ("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.

4. Significant accounting policies *(continued)*

Q) 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.

R) New accounting policies

During 2019, the Company adopted new IFRS standards and amendments in accordance with the transitional provisions of each standard as outlined below.

IFRS 16 Leases ("IFRS 16")

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 and an asset to recognize the right to use the underlying asset during the lease term in the statement of financial position.

Comparative information has not been restated and continues to be reported under IAS 17 Leases. 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.

4. Significant accounting policies *(continued)*

R) New accounting policies (continued)

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

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

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

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

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

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

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

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 weighted average incremental borrowing rate for 2019 was 9.4%.

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.

(in Canadian dollars)

4. Significant accounting policies *(continued)*

R) New accounting policies (continued)

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. There were no 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)
	$	643,632

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

5. Business acquisition

On October 1, 2019, the Company acquired all of the issued and outstanding shares of PIGCO. PICGO is incorporated under the laws of Washington state, with a head office in Bellingham, Washington, U.S. PIGCO is a contractor in the same business as CEMATRIX specializing in higher density tunnel grouting and nuclear abandonments, 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 the Company 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 PIGCO was $5,964,432 and was comprised of the following:

Cash	$	3,708,040
Common shares *(note 18)*		925,470
US operating loans *(note 12)*		1,330,922
	$	5,964,432

The net cash payment of $3,365,181 was financed with a loan from the from the Business Development Bank of Canada (note 14).

The common shares were valued at $0.28, 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 of the assets and liabilities acquired based on discounted cash flows, market information, independent valuations and management's estimates as follows:

Cash	$	342,859
Accounts receivable		661,255
Prepaid expenses		6,918
Property and equipment *(Note 9)*		8,613,415
Intangible assets *(Note 10)*		1,705,641
Trade and other payables		(919,481)
Finance lease obligation *(Note 15)*		(662,053)
Deferred income tax liability		(2,505,654)
Gain on acquisition		(1,278,468)
	$	5,964,432

The intangible assets acquired relate to the sales backlog for which contracts existed on October 1, 2019. The sales backlog acquired by the Company is amortized over 27 months on a straight-line basis, which is consistent with the time period the Company expects to complete the aforementioned contracts.

Acquisition-related costs, primarily for advisory services, were $373,844 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 PIGCO acquisition had been completed at the beginning of the fiscal period presented to the end of the reporting period.

		Pro-forma
Revenues	$	25,199,125
Net loss	$	(820,422)

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, 2019, PIGCO revenue totaled $690,559 and its net loss totaled $468,508.

(in Canadian dollars)

5. Business acquisition *(continued)*

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 14), 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.

<u>Purchase price allocation</u>

The Company determined the preliminary fair values o the assets and liabilities acquired based on discounted cash flows, market information, independent valuations and management's estimates as follows:

Cash	$	243,610
Accounts receivable		1,961,426
Inventory		105,836
Prepaid expenses		69,541
Property and equipment (*Note 9)*		2,709,402
Intangible assets (*Note 10)*		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.

Had the acquisition taken place on January 1, 2018 revenues would have been $20,014,762 and the net loss would have been $1,995,603.

(in Canadian dollars)

6. Trade and other receivables

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

		2019		2018
Trade receivables	**$**	**3,980,187**	$	4,651,775
Holdbacks		**650,720**		434,804
Other receivables		**79,861**		89,278
	$	**4,710,768**	$	5,175,857

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, 2019 and 2018:

		2019		2018
1-30 days	**$**	**844,141**	$	2,033,188
31-60 days		**1,355,623**		1,855,030
61-90 days		**1,019,903**		607,102
Greater than 90 days		**760,520**		156,455
	$	**3,980,187**	$	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. The expected credit loss calculated as at December 31, 2019 was nil (2018 – nil).

7. Inventory

Inventory consists of the following components as at December 31, 2019 and 2018:

		2019		2018
Raw materials (principally foaming agent)	**$**	**651,642**	$	364,712
Spare parts and marketing material		**9,432**		5,425
	$	**661,074**	$	370,137

Inventory expensed as part of cost of sales was $488,980 and $573,150, respectively, for the years ended December 31, 2019 and 2018. There were no inventory write-downs in either 2019 or 2018.

(in Canadian dollars)

8. Share acquisition loans

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

		2019		2018
Share acquisition loans, beginning of year	**$**	**45,743**	$	53,812
Repayments		**(8,562)**		(8,563)
Interest		**890**		494
Share acquisition loans, end of year		**38,071**		45,743
Fair value adjustment, beginning of year		**(1,869)**		(5,445)
Accretion of fair value adjustment		**1,869**		3,576
Fair value adjustment, end of year		**-**		(1,869)
	$	**38,071**		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. The 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 repayments 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 scheduled repayments of $5,500. Commencing January 1, 2018 and January 1, 2019, respectively, interest will be charged on these outstanding balances 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, 2019 and 2018 is outlined below:

	Equipment and cellular material processor	Vehicles	Computer equipment and software	Furniture and fixtures	Subtotal owned	Right of Use Asset	Total
Cost							
At December 31, 2017	5,418,163	272,734	130,784	56,079	5,877,760	349,936	6,227,696
Acquisition *(note 5)*	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
Cost							
At December 31, 2018	**7,701,663**	**729,892**	**161,267**	**61,913**	**8,654,735**	**507,152**	**9,161,887**
Acquisition *(note 5)*	**7,721,501**	**188,187**	**2,686**	**1,569**	**7,913,943**	**699,472**	**8,613,415**
Transition to IFRS 16	**-**	-	**-**	**-**	**-**	**643,632**	**643,632**
Additions	**608,610**	-	**25,357**	**29,208**	**663,175**	**635,198**	**1,298,373**
Dispositions	**(22,400)**	**(72,465)**	**-**	-	**(94,865)**	**-**	**(94,865)**
Exchange difference	**(260,812)**	**(33,445)**	**(1,845)**	**(955)**	**(297,057)**	**(17,567)**	**(314,624)**
At December 31, 2019	**15,748,562**	**812,169**	**187,465**	**91,735**	**16,839,931**	**2,467,887**	**19,307,818**
Accumulated depreciation							
At December 31, 2018	**(3,190,866)**	**(216,025)**	**(101,037)**	**(47,960)**	**(3,555,888)**	**(154,069)**	**(3,709,957)**
Depreciation	**(830,886)**	**(110,018)**	**(25,695)**	**(3,538)**	**(970,137)**	**(248,083)**	**(1,218,220)**
Dispositions	**20,160**	**32,621**	**-**	**-**	**52,781**	**-**	**52,781**
Exchange difference	**22,616**	**5,682**	**539**	**41**	**28,878**	**3,427**	**32,305**
At December 31, 2019	**(3,978,976)**	**(287,740)**	**(126,193)**	**(51,457)**	**(4,444,366)**	**(398,725)**	**(4,843,091)**
Net book value							
At December 31, 2019	**11,769,586**	**524,429**	**61,272**	**40,278**	**12,395,565**	**2,069,162**	**14,464,727**

(in Canadian dollars)

10. Goodwill and intangible assets

Goodwill and intangibles consist of the following components as at December 2019 and 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
Acquisition *(note 5)*	-	-	-	-	638,879	5,881,947	6,520,826
Additions	-	-	-	91,767	-	-	91,767
Government grants	-	-	-	(16,775)	-	-	(16,775)
Exchange difference	-	-	-	-	33,672	310,006	343,678
At December 31, 2018	315,000	141,110	9,006	249,188	672,551	6,191,953	7,578,808
Accumulated amortization							
At December 31, 2017	-	-	-	-	-	-	-
Amortization	-	-	-	-	(283,410)	-	(283,410)
Exchange difference	-	-	-	-	(10,831)	-	(10,831)
At December 31, 2018	-	-	-	-	(294,241)	-	(294,241)
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**	**672,551**	**6,191,953**	**7,578,808**
Acquisition *(note 5)*	**-**	**-**	**-**	**-**	**1,705,641**	**-**	**1,705,641**
Additions	**-**	**-**	**-**	**49,136**	**-**	**-**	**49,136**
Exchange difference	**-**	**-**	**-**	**-**	**(65,086)**	**(296,843)**	**(361,929)**
At December 31, 2019	**315,000**	**141,110**	**9,006**	**298,324**	**2,313,106**	**5,895,110**	**8,971,656**
Accumulated amortization							
At December 31, 2018	**-**	**-**	**-**	**-**	**(294,241)**	**-**	**(294,241)**
Amortization	**-**	**-**	**-**	**-**	**(557,463)**		**(557,463)**
Exchange difference	**-**	**-**	**-**	**-**	**25,531**	**-**	**25,531**
At December 31, 2019	**-**	**-**	**-**	**-**	**(826,173)**	**-**	**(826,173)**
Net book value							
At December 31, 2019	**315,000**	**141,110**	**9,006**	**298,324**	**1,486,933**	**5,895,110**	**8,145,483**

The intangible assets with indefinite lives include 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 relate 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 Canada and Cematrix USA 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 future years based on their estimated useful life. During the years ended December 31, 2019 and 2018, respectively, the Company incurred expenditures of $49,136 and $91,767, including capitalized labour costs of approximately $15,731 and $26,269, and government grants received of $nil and $16,775.

The sales backlog and goodwill were the result of the acquisition of MOS and PIGCO (note 5). The sales backlog represents the value of contracted sales that existed on the closing date. The sales backlog acquired by the Company in the MOS and PIGCO acquisitions is being amortized over 16 months and 27 months, respectively 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 Cematrix USA 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:

	Cematrix USA		Cematrix Canada	
	2019	2018	2019	2018
Gross Margin	27%	29%	30%	28%
Pre-tax discount rate	18%	18%	18%	18%

Near term (1 year) sales growth assumptions (77%) 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 2% 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 annual growth of 2.5% 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 forecasts 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, 2019 and 2018.

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 "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% and is secured by a general security agreement providing a first secured interest on 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 on all present and after acquired property of the Company.

Under the 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 Loan availability at December 31, 2019 was $1,200,000, of which $940,259 was outstanding as at December 31, 2019 (2018 – $1,205,443).

The Loan contains covenants in regard to consolidated cash flow coverage ratio, consolidated debt to tangible net worth ratio, and consolidated current ratio. At December 31, 2019 and 2018, Cematrix (Canada) Inc. was not in compliance one covenant being the debt to tangible net worth of less than 3.0 to 1. The bank has provided a general tolerance for these covenants up to and including the period ended December 31, 2019.

(in Canadian dollars)

12. US Operating loan

US Operating loans consist of the following components as at December 31, 2019 and 2018:

	Maturity	Interest rate		2019		2018
Loan 1	July 31, 2020	Fixed	$	**974,100**	$	1,023,150
Loan 2	November 1, 2020	Nil		**465,403**		-
Loan 3	June 1, 2020	Nil		**746,810**		-
			$	**2,186,313**	$	1,023,150

		2019		2018
US operating loan, beginning of the year	**$**	**1,023,150**	$	-
US operating loans assumed on business acquisitions		**1,330,922**		968,300
Repayment of US operating loans		**(94,160)**		-
Effect of unrealized foreign exchange loss (gain) on translation		**(73,599)**		54,850
US operating loan, end of the year	**$**	**2,186,313**	$	1,023,150

Loan 1 - As part of the consideration for the acquisition of MOS on May 31, 2018, the former owner of MOS agreed to enter into a financing arrangement with the Company to provide a $750,000 USD operating loan. Originally the loan was due on May 31, 2019 and interest was set at 2.0% above JPMorgan Chase Bank Bank's prime lending rate and payable quarterly. Subsequently, the loan maturity was extended to July 31, 2020 with interest set at 14.0% per annum payable monthly. The loan was fully drawn at December 31, 2019 and had a Canadian equivalent value of $974,100. The loan is secured by MOS's trade receivables and inventory and is further guaranteed with a general security agreement provided by the Company.

Loan 2 - As part of the consideration for the acquisition of PIGCO on October 1, 2019, the former owner of PIGCO agreed to enter into a financing arrangement with the Company to provide a $430,000 USD operating loan, which at the time, had a Canadian equivalent value of $569,449. The loan does not bear interest and is repayable in 12 equal monthly principal repayments starting on November 1, 2019. The loan has a balance of $358,333 USD and was fully drawn at December 31, 2019 with a Canadian equivalent value of $465,403. The loan is secured by PIGCO's trade receivables and inventory.

Loan 3 - As part of the consideration for the acquisition of PIGCO on October 1, 2019, the former owner of PIGCO agreed to enter into a financing arrangement with the Company to provide a $575,000 USD operating loan, which at the time, had a Canadian equivalent value of $761,473. The loan does not bear interest and is repayable in 6 equal monthly principal repayments starting on January 1, 2020. The loan has a balance of $575,000 USD and was fully drawn at December 31, 2019 with a Canadian equivalent value of $746,810. The loan is secured by PIGCO's trade receivables and inventory.

(in Canadian dollars)

13. Trade and other payables

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

		2019		2018
Trade payables	**$**	**1,630,554**	$	1,388,756
Accrued interest		**50,298**		23,374
Other accruals		**318,245**		99,855
Payroll remittance and goods and services tax		**373,456**		481,055
	$	**2,372,553**	$	1,993,040

14. Long-term debt

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

	Maturity	**Interest rate**		**2019**		2018
BDC financing						
Loan 1	October 1, 2020	Floating	$	**133,908**	$	334,770
Loan 2	December 1, 2022	Floating		**249,840**		333,120
Loan 3	September 1, 2024	Floating		**374,760**		138,595
Loan 4	September 1, 2021	Floating		**34,560**		57,600
Loan 5	August 1, 2026	Floating		**1,850,790**		2,250,930
Loan 6	December 1, 2025	Floating		**3,636,640**		-
				6,280,498		3,115,015
Secured debenture	January 1, 2021	Fixed		**1,000,000**		1,000,000
				7,280,498		4,115,015
Less current portion				**(1,222,148)**		(697,407)
			$	**6,058,350**	$	3,417,608

Reconciliation of Long-term debt

The following table reconciles the changes in cash flows from financing activities for the Company's long-term debt:

		2019		2018
Long-term debt, beginning of the year	**$**	**4,115,015**	$	2,213,227
Proceeds on Loan 3		**319,445**		-
Proceeds on Loans 5 and Loan 6 for business acquisitions		**3,708,040**		2,332,620
Proceeds on long-term debt		**4,027,485**		2,332,620
Repayment of long-term debt		**(688,107)**		(545,132)
Total cash flow from long-term debt		**3,339,378**		1,787,488
Effect of unrealized foreign exchange loss (gain) on income		**(102,495)**		114,300
Effect of unrealized foreign exchange gain on translation		**(71,400)**		-
Long-term debt, end of the year	**$**	**7,280,498**	$	4,115,015

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 currently 7.80% and is payable monthly, is set at 1.75% above the BDC floating base rate of 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 currently 9.91% and is payable monthly, is set at 3.86% above the BDC floating base rate of 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 of 2018 to 2022.

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 and was fully drawn down in April 2019. The interest, which is currently 7.90% and is payable monthly, is set at 1.85% above the BDC floating base rate of 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 currently 7.05% and is payable monthly, is set at 1.00% above the BDC floating base rate of 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 currently 8.1% and is payable monthly, is set at 1.60% above the BDC floating USD base rate of 6.50%. 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, 2019, the Canadian dollar equivalent of this was $1,850,790. The difference being $481,830 which is the net of principal repayments of $493,636 being offset by $11,806 in unrealized foreign exchange loss, which was recognized on the statement of loss and comprehensive loss.

14. Long term debt *(continued)*

Loan 6 – In October 2019, the Company's wholly-owned subsidiary, CEMATRIX (USA) Inc., an agreement with the BDC for a loan of $2,800,000 USD to fund the purchase price of the PIGCO acquisition. The interest is payable monthly and is currently at 10.2% which is set at 3.70% above the BDC floating USD base rate of 6.50%. The loan is repayable over six years, with seasonal payments of principal required. A principal repayment of $78,050 USD is required on July 2020 and $77,770 USD from August to December 2020. Thereafter, monthly principal repayments of $77,770 USD are required from July to December from years 2021 to 2025. On October 1, 2019 the Canadian equivalent of this loan was $3,708,040. On December 31, 2019, the Canadian dollar equivalent of this was $3,636,640. The difference being $71,400 is recognized in the unrealized foreign exchange gain on the translation of foreign subsidiaries.

Loans 1, 4, 5 and 6 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.

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.

14. Long term debt *(continued)*

Under terms of the BDC Financing 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, 2019.

The BDC Financing loans 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 Financing loans 1 to 4. The BDC Financing loan 5 and loan 6 have a consolidated fixed charge coverage ratio financial covenant which is tested annually. At December 31, 2019 the Company was not in compliance with this covenant. On the same date, the BDC provided a tolerance for this covenant breach for the period up to and including December 31, 2020.

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 is repayable in full in July 2020. In September 2019, the Secured Debenture was termed-out over a period of five years where the original bullet principal repayment due in July 2020 was replaced with principal repayments of $200,000 on January 1st in years 2021 to 2025. 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.

15. Lease obligations

Lease obligations, January 1, 2019	$	288,953
Adoption of IFRS 16		643,632
Additions		635,198
Business acquisition *(Note 5)*		662,053
Lease payments		(317,051)
Interest expense		80,291
Foreign exchange		(20,901)
		1,972,172
Less current portion		(446,001)
Lease obligations, December 31, 2019	$	1,526,171

The Company's lease obligations mainly relate to real property leases that are utilized within their operations. The Company has also entered into leases pertaining to various pieces of operating equipment including cars, trucks, trailers and computer equipment. Leases are entered into and terminated when they meet specific business requirements. The Company has recognized these lease liabilities, which are measured at the present value of the remaining lease payments at incremental borrowing rates between 5.7% and 14.2%

On adoption of IFRS 16 – Leases, the Corporation has recognized lease liabilities in relation to all lease arrangements measured at the present value of the remaining lease payments from commitments disclosed as at December 31, 2018, adjusted by commitments in relation to arrangements not containing leases, service contracts, short-term and low-value leases, and discounted using the Corporation's incremental borrowing rate as of January 1, 2019. The associated right-of-use assets were measured at the amount equal to the lease liabilities on January 1, 2019, adjusted by the amount of any lease inducements and subleases relating to the lease recognized in the consolidated statement of financial position immediately before the date of transition, with no impact on retained earnings (deficit).

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 $500,000 USD 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 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
Balance, January 1	**$**	**2,180,030**	$	1,542,121
Revaluation in the year		**(443,127)**		305,031
Payments		**(534,436)**		-
Accretion expense		**407,749**		243,032
Foreign exchange difference		**(92,378)**		89,846
Value of liability, end of year		**1,517,838**		2,180,030
Less current portion		**(870,678)**		(1,051,772)
Balance, December 31	**$**	**647,160**	$	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. Any time at the option of the holder, the convertible note can convert into 13,373,684 CEMATRIX common shares, the equivalent of $0.2375 per 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 derivative 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 December 31, 2019 and 2018, the following assumptions were used:

	December 31, 2019	December 31, 2018
Estimated fair value per common share	**$0.19**	$0.07
Common share price	**$0.34**	$0.18
Risk-free interest rate	**1.69%**	1.84%
Expected life	**1.42 years**	2.4 years
Expected volatility in stock price	**103.7 %**	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 December 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	**86,196**	**-**	**-**	**86,196**
Unrealized foreign exchange gain	**(154,187)**	**-**	**-**	**(154,187)**
Fair value adjustment loss (gain)	**-**	**(1,638,610)**	**1,500,429**	**(138,181)**
At December 31, 2019	**3,110,423**	**(2,411,104)**	**2,472,901**	**3,172,220**

(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, 2019 and 2018:

	2019		2018	
	Number of Shares	**$ Amount**	Number of Shares	$ Amount
Common shares, beginning of year	**44,480,769**	**$9,140,676**	34,475,994	$7,495,530
Common shares issued (iii)	**-**	**-**	300,000	85,422
Private placement, net of costs (i), (iii)	**11,500,000**	**2,141,800**	6,361,354	1,224,245
Business acquisitions *(note 5)*	**3,305,250**	**925,470**	3,343,421	735,553
Reclassification of warrants	**-**	**(1,255,240)**	-	(400,074)
Common shares, end of year	**59,286,019**	**$10,952,706**	44,480,769	$9,140,676

(i) 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.

(ii) 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)*

(iii) On August 14, 2019 and August 23, 2019, the Company completed the first and second tranches of a non-brokered private placement for a total of 11,500,000 units at a price of $0.20 per Unit for gross proceeds of $2,300,000 (the "Private Placement"). Each Unit is comprised of one common share and one share purchase warrant (each a "Warrant"). Each full warrant is exercisable into one common share for a period of two years at an exercise price of $0.30 per common share.

The Company paid a finder's fee and finder's warrants of 7% of the gross proceeds to qualified non-related parties that participated. The fees amounted to $158,200 and 791,000 finder's warrants were issued that entitle the holder thereof to acquire one common share for $0.30 until the expiry date of August 23, 2021.

(c) Share Purchase Warrants

The following table reflects the issuance of warrants for the year ended December 31, 2019 and December 31, 2018 which is recorded in contributed surplus:

	2019			**2018**		
	Number of Warrants		**Amount**	Number of Warrants		Amount
Warrants, beginning of year	**3,263,177**	**$**	**400,074**	**-**	$	-
Private placement	**12,291,000**		**1,255,240**	**3,263,177**		400,074
Warrants, end of year	**15,554,177**	**$**	**1,655,314**	**3,263,177**	$	400,074

Each warrant entitled the holder thereof to purchase one common share at either $0.30 or $0.35 per share as noted in the table below. 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**	**August 14, 2019**	**August 23, 2019**
Estimated fair value per share purchase warrant	**$0.14**	**$0.11**	**$0.11**	**$0.10**	**$0.10**
Common share price	**$0.20**	**$0.23**	**$0.24**	**$0.20**	**$0.20**
Exercise price	**$0.35**	**$0.35**	**$0.35**	**$0.30**	**$0.30**
Risk-free interest rate	**1.99%**	**1.99%**	**1.99%**	**1.38%**	**1.38%**
Expected life	**2 years**	**2 years**	**2 years**	**2 years**	**2 years**
Expected volatility in stock price	**106.0 %**	**104.0 %**	**101.0%**	**111.0%**	**112.0%**
Expected annual dividend yield	**nil**	**nil**	**nil**	**nil**	**nil**
Estimated forfeiture rate	**nil**	**nil**	**nil**	**nil**	**nil**
Share purchase warrants	**1,601,800**	**138,765**	**1,440,112**	**9,880,000**	**1,620,000**
Share purchase warrants – Finder's warrants	**18,750**	**1,500**	**62,250**	**686,350**	**104,650**

(in Canadian dollars)

19. Cost of sales

Cost of sales consists of the following components for the years ended December 31, 2019 and 2018:

		2019		2018
Manufacture of cellular concrete				
Materials	**$**	**9,442,387**	$	7,661,091
Direct labour		**3,776,167**		3,079,314
Variable expenses		**2,231,881**		1,497,198
Fixed overhead		**324,255**		333,009
Depreciation		**999,807**		643,904
	$	**16,774,497**	$	13,214,516

20. Finance costs

The finance costs incurred for the years ended December 31, 2019 and 2018 are as follows:

		2019		2018
Interest				
BDC Financings *(note 14)*	**$**	**358,738**	$	202,922
Secured Debenture *(note 14)*		**90,000**		90,000
Convertible Note *(note 17)*		**270,807**		147,949
Lease obligations *(note 15)*		**80,291**		12,584
Bank operating loan *(note 11)*		**62,194**		44,583
US operating loan *(note 12)*		**117,896**		47,739
Share acquisition loans *(note 8)*		**(890)**		(494)
Other		**8,326**		4,001
	$	**987,362**	**$**	549,284

The accretion costs incurred for the years ended December 31, 2019 and 2018 are as follows:

		2019		2018
Accretion				
Share acquisition loans *(note 8)*	**$**	**(1,869)**	$	(3,576)
Earn-out liability *(note 16)*		**407,749**		243,032
Convertible note *(note 17)*		**86,196**		45,403
	$	**492,076**	$	284,859

(in Canadian dollars)

21. Other income (expenses)

Other income (expenses) for the years ended December 31, 2019 and 2018 consists of the following:

		2019		2018
Unrealized foreign exchange gain (losses)	**$**	**259,443**	$	(273,383)
Realized foreign exchange gains (losses)		**1,325**		(4,159)
Loss on sale of equipment		**(1,084)**		-
Gain on acquisition *(note 5)*		**1,278,468**		-
Equipment rental		**94,800**		55,300
Other		**(2,484)**		(259)
	$	**1,630,468**	$	(222,501)

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. This agreement is 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.

(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:

		2019		2018
Loss before taxes	**$**	**(309,083)**	$	(1,294,118)
Combined statutory tax rate		**26.5%**		27.0%
Computed "expected" tax recovery		**(81,907)**		(349,412)
Differences resulting from:				
Non-cash stock-based compensation		**123,019**		22,989
Change in enacted rate and other		**(88,680)**		187,148
Change in deferred tax assets not recognized		**(7,830)**		(62,868)
Income tax recovery	**$**	**(55,398)**	$	(202,143)

The statutory rate declined from 27.0% to 26.5% due to a reduction in the Alberta corporate tax rate on July 1, 2019.

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, 2018**	**Business Combination**	**Deferred Tax Expense**	**Foreign exchange**	**December 31, 2019**
Non-capital losses	**1,249,701**	**-**	**(200,748)**	**-**	**1,048,953**
Finance lease obligations	**55,606**	**-**	**128,731**	**-**	**184,337**
Property and equipment	**(206,057)**	**-**	**(148,649)**	**-**	**(354,706)**
Intangibles	**(190,183)**	**-**	**7,377**	**-**	**(182,806)**
Other	**234,233**	**-**	**1,977**	**-**	**236,210**
Net deferred tax asset (liability)	**1,143,300**	**-**	**(211,312)**	**-**	**931,988**

U.S.	**December 31, 2018**	**Business Combination**	**Deferred Tax Recovery**	**Foreign exchange**	**December 31, 2019**
Property and equipment	**(615,848)**	**(2,065,647)**	**(220,914)**	**74,158**	**(2,828,251)**
Intangibles	**(100,122)**	**(451,995)**	**159,851**	**9,986**	**(382,280)**
Other	**(242,681)**	**11,988**	**324,817**	**4,258**	**98,382**
Net operating losses	**-**	**-**	**116,192**	**(2,556)**	**113,636**
Net deferred tax asset (liability)	(958,651)	(2,505,654)	**379,946**	**85,846**	**(2,998,513)**

(in Canadian dollars)

22. Taxes *(continued)*

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)

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.

Deferred tax assets (liabilities)

	2019	2018
Canada		
Non-capital losses	847,206	562,889
Intangibles	95,000	95,000
U.S.		
Property and equipment	-	-
Other	-	-
Net deferred tax asset (liability)	942,206	657,889

The Company has not recognized a deferred tax asset in respect of $847,206 of non-capital losses in Canada. These losses expire between 2026 and 2039.

(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, 2019 and 2018 is as follows:

	2019	**2018**
Weighted average common shares outstanding – basic	**49,671,572**	39,854,633
Effect of dilutive instruments	**-**	-
Weighted average common shares outstanding – diluted	**49,671,572**	39,854,633

The stock options for the year ended December 31, 2019 and 2018 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, 2019, the Company had 4,820,000 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.

For the year ended December 31, 2019, 900,000 vested options expired.

On May 2, 2019, 600,000 options with a term of 5 years were granted to certain Directors of the Corporation. As these were replacement options, they vested immediately.

On June 13, 2019, 300,000 options with a term of 3 years were granted to an investor relations group, the Howard Group. Half of these options vest after one year and the other half vest after two years.

On September 10, 2019, 300,000 options with a term of 3 years were granted to an investor relations group, Bristol Capital Ltd. These options vest over a period of 1 year with one quarter vesting every 3 months.

On October 1, 2019, 300,000 options were granted to employees of PIGCO. 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 Canadian dollars)

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

The following table summarizes the changes in options for the years ended December 31, 2019 and 2018:

	2019		2018	
	Number of Options	**Weighted average price**	Number of Options	Weighted average price
Outstanding, beginning of year	**4,220,000**	**$0.230**	3,275,000	$0.230
Granted	**1,500,000**	**$0.230**	1,295,000	$0.200
Exercised	**-**	**-**	(300,000)	$0.145
Expired	**(900,000)**	**$0.230**	(50,000)	$0.240
Outstanding, end of year	**4,820,000**	**$0.230**	4,220,000	$0.230
Exercisable, end of year	**3,165,000**	**$0.235**	2,891,667	$0.230

The following table summarizes the stock options to acquire common shares outstanding as at December 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	1.81	October 22, 2021
March 5, 2015	100,000	100,000	0.20	2.18	March 5, 2022
April 15, 2015	150,000	150,000	0.19	2.29	April 15, 2022
May 4, 2016	100,000	100,000	0.43	2.34	May 4, 2022
August 2, 2017	100,000	66,666	0.18	2.59	August 2, 2022
April 30, 2018	250,000	83,333	0.20	3.33	April 30, 2023
May 31, 2018	150,000	50,000	0.20	1.42	May 31, 2021
May 31, 2018	350,000	116,667	0.20	3.42	May 31, 2023
August 28, 2018	345,000	115,000	0.20	3.66	August 28, 2023
November 12, 2018	200,000	133,334	0.25	0.87	November 12, 2020
May 2, 2019	600,000	600,000	0.23	4.34	May 2, 2024
June 13, 2019	300,000	-	0.23	2.45	June 13, 2022
September 10, 2019	300,000	75,000	0.26	2.70	September 10, 2022
October 1, 2019	300,000	-	0.20	4.76	October 31, 2024
	4,820,000	3,165,000	0.23		

Non-cash stock-based compensation for the year ended December 31, 2019 was a cost of $464,222. Non-cash stock-based compensation expense for the year ended December 31, 2018 was a cost of $85,145. 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:

	2019	2018
Estimated fair value per option	$0.10 - $0.23	$0.14 - $0.19
Weighted average common share price	$0.23	$0.22
Risk-free interest rate	1.40 - 1.62%	1.99%
Expected life	3 - 5 years	3 years
Expected volatility in stock price	104 - 114%	101 - 112%
Expected annual dividend yield	nil	nil
Estimated forfeiture rate	nil	nil

25. Change in non-cash working capital

The changes in non-cash working capital items - asset (increases) decreases and liability increases (decreases) - are outlined below for the years ended December 31, 2019 and 2018.

	2019	2018
Trade and other receivables	**$ 1,033,954**	$ (2,170,827)
Inventory	**(295,734)**	186,318
Prepaid expenses and deposits	**(99,516)**	(41,345)
Trade and other payables	**(577,524)**	372,496
	$ 61,180	$ (1,653,358)

26. Related party transactions

During the year ended December 31, 2019, the Company incurred legal fees from a firm which employs one of the directors of the Company in the amount of $9,507 (2018 - $nil) of which $7,890 is in trade and other payables as at December 31, 2019 (2018 - $nil).

Compensation of key management personnel
The remuneration of directors and other members of key management personnel during the years ended December 31, 2019 and 2018 were as follows:

	2019	2018
Short term employment benefits	**$ 436,229**	$ 454,865
Non-cash stock-based compensation	**222,979**	16,280
	$ 659,208	$ 471,145

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 marketplace. 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 totalled $6,280,498 at December 31, 2019 and the Loan, which had a balance at December 31, 2019 of $940,259 are subject to floating market rates. Based on the floating rate debt outstanding as at December 31, 2019, a 1% increase/decrease in interest rates would result in a decrease/increase in net loss attributable to common shareholders of approximately $53,000.

(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 and cash equivalents 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, 2019, 16 customers accounted for approximately 75% of trade receivables (at December 31, 2018, 6 customers accounted for approximately 51% of trade receivables). For the year ended December 31, 2019, 12 customers each accounted for over 49% of revenue compared to 3 customers accounted for 6% of revenue in 2018. At December 31, 2019, the Company had $820,474 of cash and cash equivalents (2018 - $653,353), an $80,000 term deposit (2018 - $80,000) and $38,071 (2018 - $43,874) 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, 2019 and 2018 based on contractual undiscounted payments.

	Less than 1 year	1 to 2 years	2 to 6 years	Total
As at December 31, 2019				
Bank overdraft	**$ 164,414**	**$ -**	**$ -**	**$ 164,414**
Bank operating loan	**940,259**	**-**	**-**	**940,259**
US operating loan	**2,186,313**	**-**	**-**	**2,186,313**
Trade and other payables	**2,372,553**	**-**	**-**	**2,372,553**
Long-term debt	**1,222,148**	**1,276,356**	**4,781,994**	**7,280,498**
Lease obligations	**446,001**	**449,045**	**1,077,126**	**1,972,172**
Earn-out liability	**870,678**	**647,160**	**-**	**1,517,838**
Convertible note	**-**	**3,172,220**	**-**	**3,172,220**
	$ 8,202,366	**$ 5,544,781**	**$ 5,859,120**	**$ 19,606,267**
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

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 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:

		2019		2018
Cash and cash equivalents	**$**	**583,193**	$	477,244
Trade and other receivables	**$**	**1,718,472**	$	1,355,817
Prepaid expenses and deposits	**$**	**101,439**	$	62,916
Trade and other payables	**$**	**851,655**	$	1,148,915
US operating loan	**$**	**933,333**	$	750,000
Long term debt	**$**	**4,225,000**	$	1,650,000
Lease obligations	**$**	**918,177**	$	49,242
Earn-out liability	**$**	**1,168,646**	$	1,598,028
Convertible note	**$**	**2,442,424**	$	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, 2019 a 1% increase/decrease of the USD against the Canadian dollar would result in an increase/decrease in net loss of approximately $87,000.

(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, 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.

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

		2019		2018
Bank operating loan (*Note 11*)	**$**	**940,259**	$	1,205,443
US operating loan *(Note 12)*		**2,186,313**		1,023,150
Long term debt *(Note 14)*		**7,280,498**		4,115,015
Lease obligations *(Note 15)*		**1,972,172**		288,953
Convertible note *(Note 17)*		**3,172,220**		3,378,392
Total debt		**15,551,462**		10,010,953
Shareholders' equity		**7,571,802**		4,745,575
	$	**23,123,264**	$	14,756,528

(in Canadian dollars)

29. 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, 2019 and 2018 and the total non-current assets attributable to the Company's geographical segments as at December 31, 2019 and 2018:

		2019		2018
Sales to external customers				
Canada	**$**	**11,308,083**	$	9,251,914
U.S.		**11,242,871**		8,308,802
	$	**22,550,954**	$	17,560,716

		2019		2018
Total non-current assets				
Canada	**$**	**5,139,140**	$	4,729,195
U.S.		**18,403,058**		9,150,602
	$	**23,542,198**	$	13,879,797

30. Subsequent Events

COVID-19

Subsequent to year-end, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by all levels of governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus. The Construction Industry has been classified as an "essential service" by many jurisdictions. While the extent of the impact is unknown, we anticipate this outbreak may cause reduced customer demand, supply chain disruptions, staff shortages, and increased government regulations, all of which will negatively impact the Company's business and financial condition.

Private Placement

On April 22, 2020, the Company completed a private placement of unsecured convertible debentures raising $5.5 million in gross proceeds. The convertible debentures pay interest at 8% per year and convert into units at $0.40 per unit. Each unit will be comprised of one common share and one-half share purchase warrant. Each share purchase warrant will be exercisable into one common share for a period of 36 months from the date of issuance at an exercise price of $0.45 per common share.