CEMATRIX CORPORATION

Management's Discussion and Analysis

Three Months Ended March 31, 2020

Date Completed: May 20, 2020

CEMATRIX CORPORATION
www.cematrix.com

Form 51-102F1 - Management's Discussion & Analysis
For the Three Months Ended March 31, 2020

The following is the management's discussion and analysis ("MD&A") of CEMATRIX Corporation ("CEMATRIX" or the "Company") for the three months ended March 31, 2020. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements of the Company for the three months ended March 31, 2020 (the "Interim Consolidated Financial Statements") and the related notes thereto and the audited consolidated financial statements and MD&A of the Company for the year ended December 31, 2019 and related notes thereto. The Interim Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards. All dollar figures included therein and in this MD&A are in Canadian dollars

Additional information relevant to the Company's activities can be found on SEDAR at www.sedar.com. CEMATRIX is listed on the TSX Venture Exchange under the trading symbol "cvx".

The Audit Committee of the Company reviewed and recommended for approval by the Board of Directors of the Company the Interim Consolidated Financial Statements and MD&A for the three months ended March 31, 2020. The Board of Directors of the Company reviewed and approved the Interim Consolidated Financial Statements and MD&A on May 20, 2020.

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Forward Looking Statements

This MD&A contains certain statements and disclosures that may constitute forward-looking information under applicable securities law. All statements and disclosures, other than those of historical fact, which address activities, events, outcomes, results or developments that the Company anticipates or expects may or will occur in the future (in whole or in part) should be considered forward-looking information. In some cases, forward-looking information can be identified by such terms as "forecast", "future, "may", "will", "expect", "anticipate", "believe", "potential", "enable", "plan", "continue", "contemplate", "pro-forma" or other comparable terminology. Forward-looking information presented in such statements or disclosures may, amongst other things relate to: sources of revenue and income; forecasts of capital expenditures and sources of financing thereof; the Company's business outlook; plans and objectives of management for future operations; forecast business results; and anticipated financial performance.

The Company has identified what it considers to be the material forward-looking statements and disclosure in this MD&A and has listed them in Appendix A. The material factors, material assumptions and material risks that provide the basis for those statements and disclosure have also been provided in Appendix A.

The forward-looking information in statements or disclosure in this MD&A is based (in whole or in part) upon factors which may cause actual results, performance or achievements of the Company to differ materially from those contemplated (whether expressly or by implication) in the forward-looking information. Various assumptions or factors are typically applied in drawing conclusions or making forecasts or projections set out in forward-looking information. Those assumptions and factors are based on information currently available to the Company including information obtained by the Company from third-party industry analysts and other third-party sources. Actual results or outcomes may differ materially from those predicted by such statements or disclosures. While the Company does not know what impact any of those differences may have, its business, results of operations, financial condition and its credit stability may be materially adversely affected.

The Company has discussed, in Section D. – Key Market Drivers and in Section E. - Key Risks and Uncertainties of its MD&A for the year ended December 31, 2019 the significant market drivers and risk factors that affect its business and could cause actual results to differ materially from the forward-looking information disclosed herein. The Company cautions the reader that these factors are not exhaustive. The risk factors that could lead to differences in business results and which could cause actual results to differ materially from the forward-looking information disclosed herein include, without limitation, legislative and regulatory developments that may affect costs, revenues, the speed and degree of competition entering the market, global capital markets activity, timing and extent of changes in prevailing interest rates, inflation levels and general economic conditions in geographic areas where the Company operates, results of financing efforts, changes in counterparty risk and the impact of accounting standards issued by the International Accounting Standards Board.

The Company is not obligated to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable laws. Because of the risks, uncertainties and assumptions contained herein, prospective investors should not place undue reliance on forward-looking statements or disclosures. The foregoing statements expressly qualify any forward-looking information contained herein.

A. Purpose of the Company's MD&A

The purpose of this MD&A is to provide a narrative explanation, through the eyes of management, to assist the reader in understanding the Company's performance for the three months ended March 31, 2020, the Company's financial condition as at March 31, 2020 and its future prospects.

B. First Quarter Comments

Financial Review

Revenue was $3,931,857 in the first quarter of 2020 an increase of $746,131 or 23% as compared to the same period in 2019. The acquisition of Pacific International Grout Co ("PIGCO") closed on October 1, 2019 and contributed $2,920,474 of the revenue earned in the first quarter of 2020.

The increase in revenues resulted in Gross Margin of $676,918 in the first quarter of 2020 an increase of $156,710 or 30% compared to the first quarter of 2019. Gross Margin Percentage increased to 17% in the first quarter of 2020 compared to 16% in the first quarter of 2019. The improvement in the Gross Margin Percentage is the result of the CEMTRIX's high fixed cost structure which results in high operating leverage.

The revenues earned in the first quarter of 2020 did not allow for the recovery of this high fixed cost structure and resulted in a loss attributed to common shareholders of $1,347,603 which is an increase of $510,902 or 61% compared to the first quarter of 2019.

The first quarter is historically slow and representative of the seasonal construction industry that Cematrix is a part of. The full year 2020 guidance of $40 to $45 million in revenues remains unchanged and the high operating leverage will result in higher Gross Margin Percentage on higher sales. Contracted and Verbally awarded contracts are approximately $80.4 million, of which, $40.4 million is currently scheduled for 2020. As these sales are realized, CEMTRIX will return to profitability and positive free cash flow by the end of 2020.

Awarded Significant Infrastructure Project

On February 18, 2020 the CEMATRIX group of companies received a Letter of Intent for one of the largest cellular concrete projects ever tendered in North America. The project includes fifteen new overpasses at an estimated contract value of $12.3 million USD and could grow from there. The project is scheduled to commence in 2021 and is currently in the process of being contracted

C. Operations and Overall Performance

Results of Operations

Comparison of the Three Months Ended March 31, 2020 and March 31, 2019

	Three Months Ended March 31		
	2020	2019	Change
Revenue	**$ 3,931,857**	$ 3,185,726	$ 746,131
Gross margin	**$ 676,918**	$ 520,208	$ 156,710
Operating expenses	**(1,522,937)**	(1,047,110)	(475,827)
Operating income (loss)	**(846,019)**	(526,902)	(319,117)
Non-cash stock based compensation	**(42,748)**	(34,117)	(8,631)
Finance costs	**(344,521)**	(216,844)	(127,677)
Other income (expense)	**(437,518)**	181,583	(619,101)
Amortization of intangibles	**(192,364)**	(122,865)	(69,499)
Acquisition costs	**-**	(48,868)	48,868
Non-cash accretion costs	**(112,545)**	(132,025)	19,480
Non-cash fair value of derivatives	**64,680**	(119,547)	184,227
Income (loss) before income taxes	**(1,911,035)**	(1,019,585)	(891,450)
Provision of deferred taxes	**563,432**	182,884	380,548
Income attributable to the common shareholder	**(1,347,603)**	(836,701)	(510,902)
Unrealized foreign exchange gain (loss) on translation of foreign subsidiaries	**813,915**	(162,911)	976,826
Comprehensive income	**$ (533,688)**	$ (999,612)	**$** 465,924
Fully diluted gain (loss) per common share	**$ (0.023)**	$ (0.019)	$ (0.004)

Revenue was $3,931,857 in the first quarter of 2020 compared to $3,185,726 in the first quarter of 2019 an increase or 23% or $746,131. The acquisition of PIGCO, which closed on October 1, 2019 generated $2,920,474 of revenue which validates the accretive nature of the transaction. Revenues in Canada and MOS were lower than anticipated on short term delays brought on by the spread and start of the COVID-19 pandemic. The construction industry continues to operate as an "essential business", albeit at a delayed rate as everyone is adjusting to the shock and new normal. The Company's expectations are that government fiscal policies and stimulus spending will be directed toward infrastructure projects which would benefit the Company.

Gross Margin was $676,918 in the first quarter of 2020, an increase of $156,710 or 30% when compared to the first quarter of 2019. As a percentage of revenues, the Gross Margin Percentage was 17% compared to 16% in 2019. The slight increase in Gross Margin Percentage is mainly due to the effect of increased revenues on a cost base that includes fixed costs. This effect is commonly referred to as operating leverage

Operating expenses were higher by $475,827 or 45% mainly due to the aggregate of the following:

- Inclusion of PIGCO operating expenses of $343,860;
- Salaries, benefits and commissions increased by $33,125 as a result of an additional full time employee and temporary labor;
- Investor relations and travel costs increased $25,297 in support of the convertible debenture financing completed subsequent to the quarter end.;
- Insurance costs increased $18,443 as a result of premium increases;
- Audit fees increased by $10,500 result of the growth in the company;
- Legal fees increased by $7,109 on general corporate matters.

Non-cash stock based compensation expense was $42,748 in the first quarter of 2020 compared to $34,117 in the first quarter of 2019. The increase of $8,631 is mainly the result of 300,000 stock options granted in the fourth quarter of 2019 to PIGCO employees.

Finance costs were $344,521 in the first quarter of 2020 compared to $216,844 in the same period in 2019, an increase of $127,677. The increase can be attributed to several items including the adoption of IFRS 16 effective January 1, 2019 which recharacterizes a portion of certain costs from operating expenses to finance costs. In addition, the cash component of the PIGCO acquisition was financed entirely with a $2,800,000 USD BDC loan, resulting in additional interest of $90,428. Furthermore, the Company entered into financing arrangements with the former owners of PIGCO to provide a $575,000 USD operating loan, which resulted in additional interest of $23,034. Initially the $575,000 USD operating loan was to be repaid in 6 equal monthly installments starting on January 1, 2020. This was amended to allow for a 6 month delay in repayments with interest now payable on the loan at 9% per annum commencing on January 1, 2020 on the unpaid balance.

Other loss was $437,518 in the first quarter of 2020 compared to a gain of $181,583 in the first quarter of 2019. The variance of $619,101 is largely as a result of the current period loss of $463,385 in unrealized foreign exchange which is caused by swings in foreign exchange rates on the following USD denominated liabilities: USD BDC Loan of $170,858 and Convertible Note of $288,420. As the Canadian dollar weakened relative to the USD, the value of these liabilities increased, which gives rise to an unrealized foreign exchange loss. The opposite effect occurred in the first quarter of 2019 resulting in a foreign exchange gain of $116,710.

Amortization of intangibles was $192,364 in the first quarter of 2020 compared to $122,865 in the first quarter of 2019 and originated from the acquisitions of MOS and PIGCO where intangible assets of $638,879 and $551,461 were attributed to the value of the sales backlog on the business combination. These sales backlogs are being amortized into income over the period June 1, 2018 to September 30, 2019 for the MOS sales backlog and October 1, 2019 to December 31, 2021 for the PIGCO sales backlog.

Acquisition costs in the prior year period were $48,868 and relate to the acquisition of PIGCO which closed on October 1, 2019 and nil in the current period.

Non-cash accretion was an expense of $112,545 in the first quarter of 2020 compared to $132,025 for the same period in 2019. Accretion expense relating to the remaining tranches of the Earn-out Liability was $89,137 and accretion on the host debt contract of the Convertible Note was $23,408. Both of which originated from the acquisition of MOS and were originally recorded at a discount. Accretion will end at the maturity date of these liabilities being either May 31, 2020 and/or May 31, 2021.

On acquisition, the Convertible Note was trifurcated into the host debt contract and conversion and prepayment features, both of which are accounted for as derivatives and revaluated at every reporting period. Based upon the black-scholes option pricing model, the fair value of the conversion and prepayment features of the Convertible Note increased by a net of $64,680 in the first quarter of 2020 resulting in a loss for the same amount compared to an decrease of $119,547 in the first quarter of 2019 resulting in a loss in the first quarter of 2019.

Unrealized foreign exchange gains and losses on the translation of foreign subsidiaries are recognized through other comprehensive income. MOS, PIGCO and Cematrix (USA) Inc. have a USD functional currency and as the Canadian dollar weakened relative to the USD, the value of these assets appreciated resulting in an unrealized foreign exchange gain of $813,915 in the first quarter of 2020. The opposite effect occurred in the first quarter of 2019 which resulted in an unrealized foreign exchange loss of $162,911.

D. Selected Quarterly Financial Information

The Company's business is seasonal in nature as it follows the construction season. Typically, revenues in the second half of the year are significantly greater than the first half of the year. The Company continues pursuing other markets where seasonality is less of an issue. This seasonality is reflected in the quarterly results summarized in the table below:

			Income (Loss)	
Quarters Ended	**Revenues**	**Comprehensive Income (Loss)**	**Per Share Basic**	**Per Share Diluted**
	$	$	$	$
March 31	**3,931,857**	**(533,688)**	**(0.023)**	**(0.023)**
Total for year	**3,931,857**	**(533,688)**	**(0.023)**	**(0.023)**
2019 Year				
March 31	3,185,726	(999,612)	(0.019)	(0.019)
June 30	6,448,543	6,946	0.004	0.004
September 30	7,622,397	(226,191)	(0.006)	(0.006)
December 31	5,294,288	513,592	0.012	0.012
Total for year	22,550,954	(705,265)	(0.005)	(0.005)

Note 1: Quarterly loss per share is calculated on a standalone quarterly basis and accordingly the sum of the quarterly amounts may not equal the total for the year.

E. Consolidated Statements of Financial Position

		March 31 2020		December 31 2019		Change
Total current assets	**$**	**6,456,035**	$	6,634,384	$	(178,349)
Total non current assets		**25,359,640**		23,542,198		1,817,442
Total assets	**$**	**31,815,675**	$	30,176,582	$	1,639,093
Current liabilities	**$**	**9,157,262**	$	8,202,366	$	954,896
Non current liabilities		**15,197,431**		14,402,414		795,017
Total liabilities	**$**	**24,354,693**	$	22,604,780	$	1,749,913
Shareholders' equity	**$**	**7,460,982**	$	7,571,802	$	(110,820)

Total current assets decreased by $178,349. This increase in aggregate is summarized below:

- Cash increased by $295,191 (See the discussion in Section F - Consolidated Statement of Cash Flows);

- Trade and other receivables decreased by $895,850 as a result of the timing differences in the collections of trade receivables and sales;
- Inventory increased by $401,967 as a result of the PIGCO acquisition and the expectation of projects to be completed in the near term;
- Prepaids and deposits increased by $20,125 mainly as a result of a deposit being paid on a new building lease which took effect on January 1, 2020 and the acquisition of PIGCO; and
- Share acquisition loans increased as a result of interest income of $218.

Total non current assets increased by $1,817,442. This increase in aggregate is summarized below:

- Property and equipment increased by $928,417 primarily as a result of a $1,014,993 foreign exchange gain on the translation of assets held by our foreign denominated subsidiaries. This in conjunction with non cash capital lease additions of $164,446 and cash capital expenditures of $46,105 was offset by depreciation expense of $297,127.
- Goodwill and intangibles assets increased by $479,933 largely as a result of a $670,820 foreign exchange gain on the translation of assets held by our foreign denominated subsidiaries and $1,477 on capitalized expenditures relating to research projects (including $1,477 of capitalized labour) being partially offset by $192,364 in amortization of the sales backlog.
- The deferred tax asset increased by $409,092 as a result of losses in the Canadian operations during the three months ended March 31, 2020.

Total current liabilities increased by $954,896. This increase in aggregate is summarized below:

- Bank overdraft decreased by $112,050 (See the discussion in Section F - Consolidated Statement of Cash Flows);
- Bank operating loan decreased by $276,630 due to timing differences to fund working capital requirements in the Canadian operations;
- The US operating loans increased by $403,997 and is the result of an additional loan with an unrelated party for $250,000 USD or the Canadian equivalent of $335,725. The loan bears interest of 14% per annum payable monthly starting April 1, 2020 and is repayable before September 1, 2020. This in conjunction a foreign exchange loss of $214,647 recognized on the translation of foreign denominated subsidiaries with a was offset by principal repayments of $146,375. All the US operating loans were fully drawn at March 31, 2020 and had a Canadian equivalent value of $2,590,310 or $1,825,835 USD.
- Trade and other payables increased by $464,141 largely as a result of the timing difference in payments;
- Current portion of long term debt increased by $282,959 largely as a result of the first principal repayment of $200,000 on the Secured Debenture becoming due on January 1, 2021, which is within 12 months of the reporting date in addition to a $82,959 unrealized foreign exchange loss on the revaluation of the USD denominated BDC loans.
- Current portion of lease obligations increased by $61,836 primarily as a result of unrealized foreign exchange losses on the translation of foreign denominated leases, the addition of 2 leases on vehicles offset by lease payments.
- Current portion of the Earn-out Liability is $705,802 USD or $1,001,321 CAD equivalent and originates from the acquisition of MOS.
    - The first tranche or 12 month period post close ending on May 31, 2019, was estimated at $851,956 USD on an undiscounted basis at December 31, 2018 and is calculated based upon 70% of MOS's EBITDA above $500,000 USD for the 12 month period from June 1, 2018 to May 31, 2019. In 2019, this was revised to $501,221 USD of which $401,983 USD has been paid and the remaining balance of $99,238 USD or $140,789 will be paid subject to certain conditions being met.

- The second tranche or 12 month period post close ending on May 31, 2020, on a discounted basis is estimated at $606,564 USD or $860,532 and is calculated based upon 65% of MOS's EBITDA above $500,000 USD for the 12 month period from June 1, 2019 to May 31, 2020.

Total non-current liabilities increased by $795,017. This increase in aggregate is summarized below:

- Long term debt increased by $223,619 as a result of $423,619 unrealized foreign exchange losses on the revaluation of the USD denominated BDC loans offset by a $200,000 reclassification of the first principal repayment of the Secured Debenture to current.
- Lease obligations increased by $111,502 primarily as a result of unrealized foreign exchange losses on the translation of foreign denominated leases, the addition of 2 leases on vehicles offset by lease payments. In total, between current and long term, non cash additions were $164,446 and unrealized foreign exchange losses were $116,823. These were offset by principal repayments of $107,931.
- Earn-out Liability is $529,186 USD or $750,757 CAD equivalent and originated from the acquisition of MOS. The Earn-out Liability is a discounted value based upon management's estimate and represents 65% of MOS's EBITDA above $500,000 US for the 12 month period from June 1, 2020 to May 31, 2021.
- The Convertible Note has a face value of $2,500,000 USD and was issued on the acquisition of MOS. On issuance, the Convertible Note was trifurcated into a conversion feature, prepayment feature and a debt host contract. At March 31, 2020 the Convertible Note had an aggregate carrying value of $3,419,368. The increase of $247,148 is the result of accretion expense of $23,408 and a $288,420 unrealized foreign exchange loss on the host debt contract. This is offset partially by the marked to market derivative gain of $64,680 and is the result of the fair value of the conversion feature decreasing by $411,428 which was offset by the decrease in the fair value of the prepayment feature by $346,748 at March 31, 2020.
- The deferred tax liability increased by $119,151 increased profitability in our US operations.

Shareholders' Equity decreased by $110,820. This increase in aggregate is summarized below:

- Share capital increased by $497,281 on the exercise of 1,147,512 warrants which resulted in the same number of common shares being issued. Cash proceeds of $380,120 were received and $117,161 was reclassified from contributed surplus relating to this exercise.
- Contributed surplus decreased by $74,413 as a result of the aforementioned reclassification of $117,161 to share capital on the exercise of warrants being offset by non-cash stock based compensation of $42,748.
- Accumulated other comprehensive income increased by $813,915 due to the unrealized foreign exchange gain on the translation of MOS, PIGCO and Cematrix USA for the three months ended March 31, 2020 as the USD appreciated.
- The Deficit increased by $1,347,603 due to the loss to common shareholders for the three months ended March 31, 2020.

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

F. Consolidated Statements of Cash Flows

Comparison of the Three Months ended March 31, 2020 and March 31, 2019

The cash position of the Company at March 31, 2020 was $1,063,301 (consisting of cash in the bank of $1,115,665 net of the bank overdraft of $52,364) compared to a cash position of $226,064 (consisting of cash in the bank of $255,710 net of the bank overdraft of $29,646) at March 31, 2019.

The change in cash in the first quarter of 2020 was a increase of $407,241 as compared to a increase of $106,426 in the same period of 2019. This change is outlined in the table below:

	Three Months Ended March 31		
	2020	2019	Change
Cash generated from (used in) operating activities			
Before non-cash working capital adjustment	**$ (867,764)**	$ (463,890)	$ (403,874)
Net change in non-cash working capital items	**1,043,214**	601,648	441,566
	175,450	137,758	37,692
Cash used in investing activities	**(47,582)**	(213,584)	166,002
Cash used in financing activities	**184,909**	198,335	(13,426)
Foreign exchange effect on cash	**94,464**	(16,083)	110,547
Increase in cash	**407,241**	106,426	300,815
Cash at beginning of period	**656,060**	119,638	536,422
Cash at end of period	**$ 1,063,301**	$ 226,064	$ 837,237

- Cash generated from operating activities increased by $37,692.
  - Cash flow before non cash working capital adjustments decreased by $403,874 mainly as a result lower revenues in Canada and MOS and the addition of fixed operating costs associated with the PIGCO acquisition.

    Net change in non-cash working capital items increased by $441,566 primarily due to the accelerated collection of trade receivables compared to the prior year period. .
- Cash used in investing activities decreased by $166,002.
  - Property and equipment additions decreased by $197,433 in the absence of a upgrade to a wet mix unit in the first quarter of 2019.
  - Proceeds on the sale of equipment were $41,000 in the first quarter of 2019, which were absent in 2020;
  - Intangible asset spending relating to product testing decreased by $9,569. Expenditures of $1,477 (entirely comprised of capitalized internal labour) were incurred in the first quarter of 2020 compared to $11,046 (including $973 of capitalized internal labour) in the first quarter of 2019;
- Cash generated from financing activities decreased by $13,426.
  - In 2020 the Company generated $184,909 from financing activities. The Company received $335,725 on a new $250,000 USD operating loan and $380,120 from the exercise of warrants during the quarter. This was offset partially by repayments of $276,630 on its operating loan, $146,375 on its existing US operating loans and scheduled repayments of $107,931 on lease obligations.
  - In 2019 the Company generated $198,335 in financing activities. The Company drew an additional $178,376 on its long term debt to fund upgrades on existing equipment during the quarter and drew $71,342 on it's operating loan. This was offset by scheduled repayments of $51,383 on lease obligations.

G. Liquidity, Capital Resources and Commitments

Liquidity

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

The Company, through its wholly owned subsidiary CEMATRIX Canada, has a $1,500,000 bank operating loan with the Canadian Western Bank ("CWB" or "Bank"). Under the bank operating loan, the Bank will advance up to $1,500,000 based on 75% of trade receivables less any amounts outstanding longer than ninety days at the end of each month and 50% of inventory (up to a maximum $250,000). Based on these restrictions, $696,494 of the bank operating loan was available at March 31, 2020 with $663,629 being drawn.

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

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

- Cash flow coverage ratio of not less than 1.25, tested not less than annually. This is a ratio of EBITDA to all interest (paid or accrued) plus the actual principal payment obligations for the trailing fiscal year on all indebtedness for borrowed money and leases. EBITDA will be calculated excluding the extraordinary items (acquisition cost, gain/loss on disposition of assets) and significant non-cash items (stock-based compensation, revaluation of the earn out liability, mark to market adjustments, unrealized foreign exchange gains and losses);

- Debt to tangible net worth ratio not greater than 1.75, tested no less than monthly. This is the ratio of indebtedness for borrowed money and leases divided by the net tangible worth. The definition of debt excludes the convertible debenture and earn-out liability. Tangible net worth is defined as equity and includes the value of the convertible debenture.

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

- Current ratio not less than 1.25, tested no less than monthly. This is the ratio of current assets, excluding amounts due from related parties, to current liabilities. Earn-out liabilities due to its contingent nature and vendor payable to MOS, as subordinated, will not be considered as Liabilities.

At March 31, 2020, the Company was not compliant with the debt to tangible net worth ratio of less than 3.00 and current ratio covenants. The bank has provided a tolerance for these covenants for the March 31, 2020 period.

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 breech for the period up to and including December 31, 2020.

The Company, through its wholly owned subsidiary PIGCO, has a $430,000 USD loan which is fully drawn. The loan was repayable in 12 equal monthly payments starting November 1, 2019 and does not bear interest. At December 31, 2019 the Canadian equivalent of this loan was $355,857.

The Company, through its wholly owned subsidiary Cematrix (USA) Inc., has a $575,000 USD loan which is fully drawn. Originally, the loan did not bear interest and was repayable in 6 equal monthly principal repayments starting on January 1, 2020. Subsequently, the start of the loan repayments was deferred to July 1, 2020 and now bears interest of 9% per annum starting January 1, 2020, payable monthly. The $575,000 USD loan was fully drawn at March 31, 2020 with a Canadian equivalent value of $815,753.

The Company, through its wholly owned subsidiary MOS, has a $750,000 USD loan which is fully drawn. The loan is repayable on July 31, 2020 and bears an annual interest rate of 14%, payable monthly. At December 31, 2019 the Canadian equivalent of this loan was $1,064,025. This working capital loan was repaid on May 5, 2020 from proceeds received through the debenture offering completed on April 22, 2020.

The Company, through its wholly owned subsidiary MOS, secured a new $250,000 USD short term loan with a**n** unrelated party, which at the time, had a Canadian equivalent value of $335,725. The loan bears interest of 14% per annum payable monthly starting April 1, 2020 and is repayable before September 1, 2020. payable monthly. The loan was fully drawn at March 31, 2020 and had a Canadian equivalent value of $354,675. This working capital loan will be fully repaid on June 1, 2020 from proceeds received through the debenture offering completed on April 22, 2020.

At March 31, 2020, the Company had Net Working Capital of $2,385,387 compared to $3,323,286 at December 31, 2019.

For the three months ended March 31, 2020, the Company reported negative cash flow from operations before net change in non-cash working capital items of $867,764 and a negative EBITDA of $523,025.

Subsequent to period end, 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.

Management continues to closely monitor discretionary costs.

The realization of Net Working Capital, the availability of the CWB bank operating loan and the successful completion of the approximate $80.4 million in sales contracts and contracts in progress over the next two to three years will provide the necessary liquidity to carry the Company's operations through 2020 and 2021. Ongoing liquidity beyond this, is dependent on the Company achieving additional sales and profitable results.

Capital resources

Although the Company has significant production capacity for the foreseeable future, building additional productive capacity in future years for specific purposes is dependent on the Company generating the required funds from operations or new debt or equity financing. In the future, if the Company needs to add production capacity, there is no certainty that additional debt or equity financing will be available to the Company.

The Company defines its capital as the long term debt, the lease obligations and shareholders' equity. The current objective of the Company is to manage its capital through growth in earnings and to re-invest the earnings generated to facilitate the continued growth in the Company, in order to provide an appropriate rate of return to shareholders in relation to the risks underlying the Company's assets. The consolidated capital of the Company, as outlined in Note 26 - Capital management to the Consolidated Financial Statements, was $23,755,171 at March 31, 2020 as compared to $23,123,264 at December 31, 2019 (see Section H. Consolidated Statements of Financial Position for details).

H. Off Balance Sheet Arrangements

There were no off balance sheet arrangements at March 31, 2020 or December 31, 2019.

I. Transactions with Related Parties

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 $nil (2019 - $nil) of which $nil is in trade and other payables as at March 31, 2020 (2019 - $nil).

J. Critical Accounting Judgments, Estimates and Assumptions

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

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the consolidated financial statements are described in Note 3 of the audited consolidated financial statements for the year ended December 31, 2019. There have been no changes since that date.

K. Changes in Accounting Policies including Initial Adoption.

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 rretrospective approach. The new standard requires a lessee to recognize a liability to make lease payments (the lease liabilities) and an asset to recognize the right to use the underlying asset during the lease term (the lease assets) in the statement of financial position.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Future accounting pronouncements

The Company has reviewed new and revised standards and interpretations that have been approved by the IASB. There have been no new standards or interpretations issued during 2019 that significantly impact the Company.

L. Financial Instruments
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 for similar instruments.

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

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

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

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

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

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.

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.

Interest Rate Risk

The BDC Financings, which totalled $6,787,076 at March 31, 2020 and the Loan, which had a balance at March 31, 2020 of $663,629 are subject to floating market rates. Based on the floating rate debt outstanding as at March 31, 2020, a 1% increase/decrease in interest rates would result in a decrease/increase in net loss attributable to common shareholders of approximately $54,500.

Credit Risk

The Company is responsible for reviewing the credit risk for each customer before standard payment and delivery terms and conditions are offered. The Company review consists of external ratings, when available, and in some cases bank and trade references. Management has established a credit policy under which new customers are analyzed for creditworthiness before the Company extends credit. The Company monitors its trade and other receivables aging on an ongoing basis as part of its process in managing its credit risk.

The Company also manages credit risk related to trade and other receivables on a consolidated basis whereby the aggregate exposure to individual customers is reviewed and their credit quality is assessed.

Financial instruments that subject the Company to credit risk consist primarily of cash and cash equivalents, term deposits, trade receivables and the share acquisition loans. The Company's cash is held with large established financial institutions. The Company manages credit risk using credit approval and monitoring practices. The credit risk on share acquisition loans is minimal as the Company can cancel the common shares issued to these individuals in the event of non payment. At March 31, 2020, 11 customers accounted for approximately 66% of trade receivables (at December 31, 2019, 16 customers accounted for approximately 75% of trade receivables). For the three months ended March 31, 2020, 8 customers each accounted for over 89% of revenue. At March 31, 2020, the Company had $1,115,665 of cash and cash equivalents (2019 - $820,474), an $80,000 term deposit (2019 - $80,000) and $38,289 (2019 - $38,071) of fair valued share acquisition loans that are outstanding with two officers, and a former officer of the Company.

Liquidity Risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations. Liquidity risk management involves maintaining sufficient cash and cash equivalents and the availability of working capital financing.

The table below summarizes the maturity profile of the Corporation's financial liabilities at March 31, 2020 and 2019 based on contractual undiscounted payments.

	Less than 1 year	1 to 2 years	2 to 6 years	Total
As a March 31, 2020				
Bank overdraft	**$ 52,364**	**$ -**	**$ -**	**$ 52,364**
Bank operating loan	**663,629**	**-**	**-**	**663,629**
US operating loan	**2,590,310**	**-**	**-**	**2,590,310**
Trade and other payables	**2,836,694**	**-**	**-**	**2,836,694**
Long-term debt	**1,505,107**	**1,359,282**	**4,922,687**	**7,787,076**
Lease obligations	**507,837**	**515,997**	**1,121,676**	**2,145,510**
Earn-out liability	**1,001,321**	**750,757**	**-**	**1,752,078**
Convertible note	**-**	**3,107,664**	**-**	**3,107,664**
	$ 9,157,262	**$ 5,733,700**	**$ 6,044,363**	**$ 20,935,325**

	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

Foreign Exchange Risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure relates to balances denominated in US dollars ("USD") and the operations of its US subsidiary which are predominantly in USD. The Company does not hedge these items as the timing of related transactions is not certain.

As at March 31, 2020 and December 31, 2019, the following balances were denominated in USD:

		2020		2019
Cash and cash equivalents	**$**	**778,442**	$	583,193
Trade and other receivables	**$**	**1,454,407**	$	1,718,472
Prepaid expenses and deposits	**$**	**125,425**	$	101,439
Trade and other payables	**$**	**1,400,322**	$	851,655
US operating loan	**$**	**1,825,833**	$	1,683,333
Long term debt	**$**	**4,225,000**	$	4,225,000
Finance lease obligations	**$**	**872,325**	$	918,177
Earn-out liability	**$**	**1,234,988**	$	1,168,646
Convertible note	**$**	**2,410,212**	$	2,442,424

The Company's primary foreign exchange sensitivity is in relation to movements of the USD against the Canadian dollar. Based on USD balances as at March 31, 2020 a 1% increase/decrease of the USD against the Canadian dollar would result in an increase/decrease in total comprehensive loss of approximately $113,000.

M. Disclosure of Outstanding Share Data

As at March 31, 2020 and May 20, 2020, the following is a description of the outstanding equity securities and convertible securities previously issued by the Company

	Authorized	Outstanding as at March 31, 2020	Outstanding as at May 20, 2020
Voting or equity securities issued and outstanding	Unlimited Common Shares	59,717,699 Common Shares	62,029,238 Common Shares
Securities convertible or exercisable into voting or equity securities – stock options	Stock options to acquire up to 10% of outstanding Common Shares	Stock options to acquire 4,820,000 Common Shares at an exercise price at between $0.18 - $0.43	Stock options to acquire 4,820,000 Common Shares at an exercise price at between $0.18 - $0.43
Securities convertible or exercisable into voting or equity securities – share purchase warrants	As approved by the board	Share purchase warrants to acquire 14,406,665 Common Shares at an exercise price at between $0.30 - $0.35	Share purchase warrants to acquire 12,810,958 Common Shares at an exercise price at between $0.30 - $0.35
Securities convertible or exercisable into voting or equity securities – units	As approved by the board	Nil	Units to acquire 1,100,000 units at a price of $0.40. Each unit is comprised to one Common Share and a half share purchase warrant to acquire Common Shares at $0.45

N. Outlook

Management is optimistic on the outlook for 2020 and beyond. In the near term, the COVID-19 situation has had, and is expected to continue to have little effect on the Company's business in both the U.S. and Canada. If anything, the COVID situation may work to significantly benefit the CEMATRIX Group of Companies as governments in both countries consider pouring money into infrastructure spending to get Americans and Canadians working again. .

Even without these additional prospects, the Company's back log of projects continues to grow and is now at $80.4 million, which is greater than twelve times last years annual sales, of which $40.4 million is currently scheduled to be completed in 2020 and this is 1.8 times last year's annual sales. Naturally, the backlog of contracts that are scheduled to be completed for 2020 and beyond will continue grow as new projects are secured during the balance of the year, which will help ensure that the Company meets its continued guidance of between $40 and $45 million in gross revenues.

With the closing of a three year $5.5 million unsecured convertible debenture financing on April 22, 2020 the Company is in an excellent position to realize on the sales in its backlog, to grow those sales and to benefit from the increased opportunities available under the new and planned U.S., State, Canadian and Provincial infrastructure spending programs. The company is also now in a very good position to evaluate other acquisition and expansion opportunities that are being considered for the 2021 year and beyond.

Appendix A – Forward Looking Statements

The forward-looking statements in the MD&A for the three months ended March 31, 2020 are outlined below:

General

There are a number of statements in the MD&A which refer to “expect“, “expects”, “expected”, “believes”, “should”, “anticipated” and “will”.

The foregoing statements contains forward-looking statements which are based on sales forecasts prepared for 2020; sales forecasts include work which is under contract or Verbally Awarded for 2020, as well as probability adjusted forecasts for projects on which the Company has placed or will place bids in the coming year, where the probabilities applied to the sales forecast are based on management’s assessment of the particular project based on historical experience and the stage the project is in the sales cycle. There are a number of risks that could affect these assumptions which include: contracted work is delayed; the failure of 2020 sales to materialize, because of project delays or cancelations or because CEMATRIX’s cellular concrete is not specified into projects, management’s assumptions in applying probabilities to the various projects in the sales forecast are incorrect, and product acceptance in new markets takes longer than anticipated resulting in reduced sales.

CEMATRIX CORPORATION
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Form 51-102F1 - Management’s Discussion & Analysis
For the Three Months Ended March 31, 2020

Appendix B – Definitions

Sales Pipeline:
The Company's sales pipeline is defined as the total forecasted dollar amount of those future projects that CEMATRIX has been contacted by engineering firms, or owners, or contractors for design assistance (which could include thermal modelling), a quote, or both. The sales pipeline does not include the dollar value of contracted sales; or the dollar value of sales, where volumes have not been determined by the designers; or the dollar value of sales that have been lost for various reasons, including that the proposed project has been cancelled, lost to an alternative product or lost to a competitor. The sales pipeline is updated when changes in the status of a project becomes known to CEMATRIX. The sales pipeline includes projects from the current and future years and grows with the continued acceptance of the product throughout the Company's market territory, which currently includes significant parts of Canada and parts of the U.S.

Cost of Sales:
Direct costs related to the production of cellular concrete, including materials and labour; direct and indirect variable costs related to the production of cellular concrete; and fixed costs related to the production of cellular concrete, including depreciation related to the equipment used in the production of cellular concrete.

Gross Margin:
The profit after cost of sales is deducted from revenue.

Gross Margin Percentage:
The percentage of the gross margin as a percentage of revenue.

Operating Expenses:
Represents costs not directly related to the production of cellular concrete, including general and administrative, sales and marketing and technology development.

Operating Income (Loss):
Income (loss) before non-cash stock based compensation, finance costs and other miscellaneous items and taxes.

Net Working Capital:
The sum of trade and other receivables, inventory and prepaid expenses and deposits minus trade and other payables.

Ready Mix
This refers to pre-designed cement slurry which is delivered by a ready mix supplier.

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

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