CEMATRIX CORPORATION

Management's Discussion and Analysis

Three and Six Months Ended June 30, 2020

Date Completed: August 6, 2020

CEMATRIX CORPORATION
www.cematrix.com

Form 51-102F1 - Management's Discussion & Analysis
For the Three and Six Months Ended June 30, 2020

The following is the management's discussion and analysis ("MD&A") of CEMATRIX Corporation ("CEMATRIX" or the "Company") for the three and six months ended June 30, 2020. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements of the Company for the three and six months ended June 30, 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 and six months ended June 30, 2020. The Board of Directors of the Company reviewed and approved the Interim Consolidated Financial Statements and MD&A on August 6, 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 and six months ended June 30, 2020, the Company’s financial condition as at June 30, 2020 and its future prospects.

B. Mid-Year Highlights

Financial Review

Revenue was $7,365,858 in the second quarter of 2020 an increase of $917,315 or 14% as compared to the same period in 2019. The acquisition of Pacific International Grout Co (“PIGCO”) closed on October 1, 2019 and contributed $1,931,678 of the revenue earned in the second quarter of 2020, which was offset by decline in revenue in Canada. The Canadian sales decline was mainly due to deferral of a number of projects to the later part of the year, as a result of COVID-19. There were also a number of U.S. projects that were originally scheduled to be completed in the first two quarters that were delayed for the same reasons, or re-scheduled in order to be completed in a more efficient manner for our customers.

These revenues net of the costs incurred to produce them, resulted in a Gross Margin of $1,604,715 in the second quarter of 2020, compared to $1,839,555 in the second quarter of 2019, a decrease of $234,840 or 13%. In addition, Gross Margin Percentage decreased to 22% in the second quarter of 2020 compared to 29% in the second quarter of 2019. The decrease in Gross Margin and Gross Margin Percentage is the result of a combination of increased fixed costs related to the addition of PICGO into the group of companies and the carrying of additional operating staff hired to support sales that were delayed or rescheduled into the third and fourth quarters and in some cases next year.

The margins generated on the additional revenues earned in the second quarter of 2020 were not sufficient to offset the higher fixed cost structure noted above and as such, this resulted in a loss attributed to common shareholders of $630,948, as compared to a net income of $172,512 in the second quarter of 2019.

Revenue was $11,297,715 in the first six months of 2020, an increase of $1,663,446 or 17% compared to first half of 2019. The revenue generated from the recently acquired PIGCO amounted to $4,852,152, but this addition in sales was offset in part offset by a revenue decline in Canada, due to the deferral of some projects to the later part of the year and into the next year, as a result of COVID-19.

These revenues net of the costs incurred to produce them, resulted in a Gross Margin of $2,281,633 in the first six months of 2020, compared to $2,359,763 in the first six months of 2019. Gross Margin Percentage was 20% in the first six months of 2020 compared to 24% in the first six months of 2019. The decrease in Gross Margin and Gross Margin Percentage is the result of a combination of increased fixed costs related to the addition of PICGO into the group of companies and the carrying of additional operating staff hired to support sales that were delayed or rescheduled into the third and fourth quarters and in some cases next year.

The margins generated on the additional revenues earned for the six months ended June 30, 2020 were not sufficient to offset the higher fixed cost structure noted above and as such, the loss attributed to the common shareholder was $1,978,551 in the first half of 2020, compared to the loss of $664,189 in the first half of 2019, a decline of $1,314,362.

Update on Guidance due to the affects of COVID-19

As of our latest News Release dated July 9, 2020, the Company has $80.2 million in contracts and verbally awarded projects (contracts in process), of which $37.9 million is scheduled to be completed in 2020 and we are landing more and more projects each day, some of which are to be completed in 2020. However, the COVID-19 situation is starting to push more and more of our projects out further, some of which are being pushed into next year. As a result, in the past month approximately $3.1 million in Canadian sales have now been pushed into 2021, bringing the total to just over $5.0 million to date.

This trend is expected to continue, particularly in Canada, where a more conservative approach to the COVID-19 situation is resulting in a significant decline in Canadian sales and more projects being pushed out. Furthermore, the strengthening Canadian dollar in relation to its US counterpart is having a negative affect on forecasted sales, since over 85% of CEMATRIX sales are now being generated in the U.S.

As a result of these issues, CEMATRIX is revising its full year 2020 guidance to $32.0 to $38.7 million in revenues from previously reported guidance of $40.0 to $45.0 million. The reduced gross margin contribution from the lower sales is expected to be partially offset by reduction in sales, investor relations and other costs being experienced because of the COVID-19 situation as well. Based on the new forecasted sales range and lower expenses, we are now forecasting the EBITDA before the PIGCO Earnout to be from $3.0 and $4.9 million. As a reminder, the MOS Earnout was part of the purchase price and only effects the EBITDA if there is a revaluation of the Earnout of MOS, as estimated at the time of its acquisition by CEMATRIX.

Sales Pipeline

Even though some projects have been delayed, not cancelled, it is important to note that the Company's consolidated sales pipeline continues to grow and be in excess of $336.0 million Canadian. Although, the greater growth is in the U.S. pipeline, we are seeing several new sizeable Canadian projects come out for design and bid as well, most of which are currently scheduled to commence in 2021.

Of note as well, is that not only is the number of opportunities growing, particularly in the US, but the size of the opportunities continues to grow as well. Most recently, one of our U.S. Operating Companies bid on a project with an estimated sales value of $22.4 million USD. That tunnel project is significantly larger than the $12.3 million USD North Carolina project awarded to CEMATRIX earlier this year (see below). CEMATRIX is still in the running to be awarded this project and should hear the results in the next few months**.**

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 further in the future. The project is scheduled to commence in 2021 and is currently in the process of being contracted.

Financings

1. Debenture – closed an oversubscribed $5.5 million, 8% Convertible Debenture Financing on April 22, 2020;
2. Warrants – For the six months ended June 30, 2020, 3,329,181 warrants were exercised, bringing in an additional $327,955, for general working capital purposes including operating debt reduction.

C. Operations and Overall Performance

Results of Operations

Comparison of the Three Months Ended June 30, 2020 and June 30, 2019

	Three Months Ended June 30		
	2020	2019	Change
Revenue	**$ 7,365,858**	$ 6,448,543	$ 917,315
Gross margin	**$ 1,604,715**	$ 1,839,555	$ (234,840)
Operating expenses	**(1,574,385)**	(1,102,554)	(471,831)
Operating income	**30,330**	737,001	(706,671)
Non-cash stock based compensation	**(29,355)**	(143,960)	114,605
Finance costs	**(409,870)**	(215,480)	(194,390)
Other income	**234,431**	77,906	156,525
Income (loss) before other items	**(174,464)**	455,467	(629,931)
Amortization of intangibles	**(198,335)**	(123,632)	(74,703)
Acquisition costs	**-**	(16,957)	16,957
Accretion costs	**(179,278)**	(157,620)	(21,658)
Revaluation of earn-out liability	**(110,972)**	146,181	(257,153)
Non-cash fair value of derivatives	**(182,866)**	128,669	(311,535)
Income (loss) before income taxes	**(845,915)**	432,108	(1,278,023)
Provision of deferred taxes	**214,967**	(170,523)	385,490
Provision of current taxes	**-**	(89,073)	89,073
Net Income (loss) attributable to the common shareholder	**(630,948)**	172,512	(803,460)
Unrealized foreign exchange (loss) on translation of foreign subsidiaries	**(408,152)**	(165,566)	(242,586)
Comprehensive income (loss)	**$ (1,039,100)**	$ 6,946	**$** (1,046,046)
Fully diluted gain (loss) per common share	**$ (0.010)**	$ 0.004	$ (0.014)

Revenue was $7,365,858 in the second quarter of 2020 compared to $6,448,543 in the second quarter of 2019 an increase or 14% or $917,315. The acquisition of Pacific International Grout Co ("PIGCO") closed on October 1, 2019 and contributed $1,931,678 of the revenue earned in the second quarter of 2020, which was offset by decline in revenue in Canada. The Canadian sales decline was mainly due to deferral of a number of projects to the later part of the year, as a result of COVID-19. There were also a number of U.S. projects that were originally scheduled to be completed in the first two quarters that were delayed for the same reasons, or re-scheduled in order to be completed in a more efficient manner for our customers.

Gross Margin was $1,604,715 in the second quarter of 2020, a decrease of $234,840 or 13% when compared to the second quarter of 2019. As a percentage of revenues, the Gross Margin Percentage was 22% compared to 29% in 2019. The decrease in Gross Margin and Gross Margin Percentage is the result of a combination of increased fixed costs related to the addition of PICGO into the group of companies and the carrying of additional operating staff hired to support sales that were delayed or rescheduled into the third and fourth quarters and in some cases next year.

Operating expenses were higher by $471,831 or 43% mainly due to the aggregate of the following:

- Addition of PIGCO operating expenses of $321,439;
- Audit fees increased by $88,449 as a result of PIGCO acquisition and growth in the Company;
- Salaries, benefits and commissions increased by $58,994, as a result of temporary labor and an additional full-time employee;
- Insurance costs increased $10,738 as a result of premium increases;
- Legal fees increased by $9,332 on general corporate matters;
- Travel and business development decreased by $26,146 due to lower costs associated with management sales, business and investor relations travel.

Non-cash stock based compensation expense was $29,355 in the second quarter of 2020 compared to $143,960 in the second quarter of 2019. The decrease of $114,605 was mainly the result of 600,000 stock options which were granted in the second quarter of 2019 to select board members which vested immediately as they replaced an equivalent number of stock options that had expired unexercised.

Finance costs were $409,870 in the second quarter of 2020 compared to $215,480 in the same period in 2019, an increase of $194,390. The increase can be attributed to the $5.5 million unsecured convertible debenture offering which closed on April 22, 2020 and financing costs associated with the PIGCO acquisition. The Company issued a new Convertible Debenture for $5,500,000, resulting in additional interest of $86,505. The convertible debenture bears interest at a rate of 8% per year, payable semi-annually with a maturity date of April 22, 2023. The cash component of the PIGCO acquisition was financed entirely with a $2,800,000 USD BDC loan, resulting in interest of $82,173. In addition, the Company deferred principal payments on a $575,000 USD operating loan, which originally were to commence on January 1, 2020 to July 1, 2020. Interest is now payable on the loan at 9% per annum and was $11,869 in the second quarter of 2020.

Other income was $234,431 in the second quarter of 2020 compared to income of $77,906 in the second quarter of 2019. The variance of $156,525 was largely as a result of the current period gain of $216,207 in unrealized foreign exchange which is caused by swings in foreign exchange rates on the following USD denominated liabilities: USD BDC Loan of $79,658 and Convertible Note of $135,247. As the Canadian dollar strengthened relative to the USD, the value of these liabilities decreased, which gives rise to an unrealized foreign exchange gain. The same effect occurred in the second quarter of 2019 resulting in a foreign exchange gain of $104,476.

Amortization of intangibles was $198,335 in the second quarter of 2020 compared to $123,632 in the second quarter of 2019. The expense originated from the acquisitions of MOS and PIGCO where intangible assets of $638,879 and $1,705,641 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 $16,957 and relate to the acquisition of PIGCO which closed on October 1, 2019 and nil in the current period.

Accretion costs were $179,278 in the second quarter of 2020 compared to $157,620 for the same period in 2019. Accretion expense relating to the remaining tranches of the Earn-out Liability was $80,485, accretion on the host debt contract of the new Convertible Debenture was $74,007 and accretion on the host debt contract of the Convertible Note was $24,786. Accretion on the Earn-out Liability and Convertible Note 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. The Convertible Debenture was issued April 22, 2020 and has a maturity date of April 22, 2023.

The earn-out liability for the second 12 month period ended May 31, 2020 has occurred and resulted in a non-cash loss of $110,972. In 2019, the non-cash gain of $146,181 was in relation to first 12 month period of the earn-out liability. The payment is due 90 days after the anniversary date and accrues interest at 8% per year if not paid.

The Convertible Note issued upon acquisition of MOS 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 $232,401 in the second quarter of 2020 resulting in a loss for the same amount compared to a decrease of $128,669 in the second quarter of 2019 resulting in a gain in the second quarter of 2019. The Convertible Debenture, which was issued in April 2020 was trifurcated into a host debt contract, prepayment and equity features, of which the prepayment feature is accounted for as a derivative and revaluated at every reporting period. Based upon the modified black-scholes option pricing model, the fair value of the prepayment feature of the Convertible Debenture increased by $49,535 in the second quarter of 2020, resulting in a gain for the same amount.

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 strengthened relative to the USD, the value of these assets depreciated resulting in an unrealized foreign exchange loss of $408,152 in the second quarter of 2020. The same effect occurred in the second quarter of 2019 which resulted in an unrealized foreign exchange loss of $165,566.

Comparison of the Six Months Ended June 30, 2020 and June 30, 2019

	Six Months Ended June 30		
	2020	2019	Change
Revenue	**$ 11,297,715**	$ 9,634,269	$ 1,663,446
Gross margin	**$ 2,281,633**	$ 2,359,763	$ (78,130)
Operating expenses	**(3,097,322)**	(2,149,664)	(947,658)
Operating income (loss)	**(815,689)**	210,099	(1,025,788)
Non-cash stock based compensation	**(72,103)**	(178,077)	105,974
Finance costs	**(754,391)**	(432,324)	(322,067)
Other income (expense)	**(203,087)**	259,489	(462,576)
Loss before other items	**(1,845,270)**	(140,813)	(1,704,457)
Amortization of intangibles	**(390,699)**	(246,497)	(144,202)
Acquisition costs	**-**	(65,825)	65,825
Accretion costs	**(291,823)**	(289,645)	(2,178)
Revaluation of earn-out liability	**(110,972)**	146,181	(257,153)
Non-cash fair value of derivatives	**(118,186)**	9,122	(127,308)
Loss before income taxes	**(2,756,950)**	(587,477)	(2,169,473)
Provision of deferred taxes	**778,399**	12,361	766,038
Provision of current taxes	**-**	(89,073)	89,073
Net loss attributable to the common shareholder	**(1,978,551)**	(664,189)	(1,314,362)
Unrealized foreign exchange gain (loss) on translation of foreign subsidiaries	**405,763**	(328,477)	734,240
Comprehensive loss	**$ (1,572,788)**	$ (992,666)	**$** (580,122)
Fully diluted loss per common share	**$ (0.033)**	$ (0.015)	$ (0.018)

Revenue in the first half of 2020 was $11,297,715 compared to $9,634,269 in the first half of 2019 an increase of 17% or $1,663,446. The revenue generated from the recently acquired PIGCO amounted to $4,852,152, but this addition in sales was offset in part offset by a revenue decline in Canada, due to the deferral of some projects to the later part of the year and into the next year, as a result of COVID-19.

Gross Margin was $2,281,633 in the first six months of 2020, a decrease of $78,130, compared to a Gross Margin of $2,359,763 in the prior year period. As a percentage of revenues, the Gross Margin Percentage declined to 20% compared to 24% in 2019, mainly due to the effect of decreased revenues on a cost basis, which includes fixed costs related to the addition of PICGO into the group of companies and the carrying of additional operating staff hired to support sales that were delayed or rescheduled into the third and fourth quarters and in some cases next year.

Operating expenses were higher by $947,658 or 44% mainly due to the aggregate of the following:

- Addition of PIGCO operating expenses of $665,299;
- Audit fees increased by $98,949 as a result of the growth in the company and PIGCO acquisition;
- Salaries, benefits and commissions increased by $92,119 as a result of an additional full time employee and temporary labor;
- Investor relations and consulting costs increased $25,297 in support of the convertible debenture financing and the growth of the company;
- Insurance costs increased $29,181 as a result of premium increases;
- Legal fees increased by $16,441 on general corporate matters.
- Travel and business development decreased by $26,146 due to lower costs associated with management sales, business and investor relations travel.

Non-cash stock based compensation expense was $72,103 in the first six months of 2020 compared to $178,077 in the prior year period. The decrease of $105,975 was mainly the result of 600,000 stock options which were granted in the second quarter of 2019 to select board members which vested immediately as they replaced an equivalent number of stock options that had expired unexercised.

Finance costs were $754,391 in the first six months of 2020 compared to $432,324 in the same period in 2019, an increase of $322,067. The increase can be attributed to financing costs associated with the PIGCO acquisition and the $5.5 million unsecured convertible debenture offering which closed on April 22, 2020 and. The cash component of the PIGCO acquisition was financed entirely with a $2,800,000 USD BDC loan, resulting in interest of $172,601. In addition, the Company deferred principal payments on a $575,000 USD operating loan, which originally were to commence on January 1, 2020 to July 1, 2020. Interest is now payable on the loan at 9% per annum and was $34,903 in the second half of 2020. The Company issued a new Convertible Debenture for $5,500,000, resulting in additional interest of $86,505. The convertible debenture bears interest at a rate of 8% per year, payable semi-annually with a maturity date of April 22, 2023.

Other expenses of $203,087 were recognized in the first six months of 2020 compared to income of $259,489 in the prior year period. The variance of $462,576 is largely as a result of the current period loss of $247,178 in unrealized foreign exchange which is caused by swings in foreign exchange rates on the following USD denominated liabilities: USD BDC Loan of $91,200 and Convertible Note of $153,173. 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 half of 2019 resulting in a foreign exchange gain of $221,186.

Amortization of intangibles was $390,699 in the first six months of 2020 compared to $246,497 in the prior year period. The expense originated, as a result of acquisitions of MOS and PIGCO where intangible assets of $638,879 and $1,705,641 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 $65,825 and relate to the acquisition of PIGCO which closed on October 1, 2019 and nil in the current period.

Accretion costs were $291,823 in the first half of 2020 compared to $289,645 for the same period last year. Accretion expense relating to the remaining tranches of the Earn-out Liability was $169,622, accretion on the host debt contract of the new Convertible Debenture was $74,007 and accretion on the host debt contract of the Convertible Note was $48,194. Accretion on the Earn-out Liability and Convertible Note 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. The Convertible Debenture was issued April 22, 2020 and has a maturity date of April 22, 2023.

The earn-out liability for the second 12 month period ended May 31, 2020 has occurred and resulted in a non-cash loss of $110,972. In 2019, the non-cash gain of $146,181 was in relation to first 12 month period of the earn-out liability. The payment is due 90 days after the anniversary date and accrues interest at 8% per year if not paid.

The Convertible Note issued upon acquisition of MOS 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 $167,721 in the first half of 2020 resulting in a loss for the same amount compared to a decrease of $9,122 in the first half of 2019 resulting in a gain. The Convertible Debenture, which was issued in April 2020 was trifurcated into a host debt contract, prepayment and equity features, of which the prepayment feature is accounted for as a derivative and revaluated at every reporting period. Based upon the modified black-scholes option pricing model, the fair value of the prepayment feature of the Convertible Debenture increased by $49,535 in the first half of 2020, resulting in a gain for the same amount.

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 $405,763 in the first six months of 2020. The opposite effect occurred in the first half of 2019 which resulted in an unrealized foreign exchange loss of $328,477.

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 to pursue 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)**
June 30	**7,365,858**	**(1,039,100)**	**(0.010)**	**(0.010)**
Total for year	**11,297,715**	**(1,572,788)**	**(0.033)**	**(0.033)**
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

		June 30 2020		December 31 2019		Change
Total current assets	$	**10,348,996**	$	6,634,384	$	3,714,612
Total non current assets		**24,069,226**		23,542,198		527,028
Total assets	$	**34,418,222**	$	30,176,582	$	4,241,640
Current liabilities	$	**10,934,373**	$	8,202,366	$	2,732,007
Non current liabilities		**15,378,724**		14,402,414		976,310
Total liabilities	$	**26,313,097**	$	22,604,780	$	3,708,317
Shareholders' equity	$	**8,105,125**	$	7,571,802	$	533,323

Total current assets decreased by $3,714,612. This increase in aggregate is summarized below:

- Cash increased by $3,157,449 (See the discussion in Section F - Consolidated Statement of Cash Flows);
- Trade and other receivables increased by $271,186 as a result of the timing differences in the collections of trade receivables and sales;
- Inventory increased by $320,770 as a result of the PIGCO acquisition and the expectation of projects to be completed in the near term;
- Prepaids and deposits decreased by $23,665 due to amortization of these balances to income;
- Share acquisition loans decreased by 11,128 mainly as a result of a loan repayment.

Total non current assets increased by $527,028. This increase in aggregate is summarized below:

- Property and equipment decreased by $14,647 primarily as a result of a $552,474 foreign exchange gain on the translation of assets held by our foreign denominated subsidiaries. This in conjunction with non-cash capital lease additions of $305,270 and cash capital expenditures of $55,099 was offset by depreciation expense of $912,388 and disposals of $15,102.
- Goodwill and intangibles assets decreased by $23,659 largely as a result of a $364,408 foreign exchange gain on the translation of assets held by our foreign denominated subsidiaries and $2,632 on capitalized expenditures relating to research projects (including $2,632 of capitalized labour) being partially offset by $390,699 in amortization of the sales backlog.
- The deferred tax asset increased by $565,334 as a result of losses in the Canadian operations during the six months ended June 30, 2020.

Total current liabilities increased by $2,732,007. This increase in aggregate is summarized below:

- Bank overdraft decreased by $61,707 (See the discussion in Section F - Consolidated Statement of Cash Flows);
- Bank operating loan decreased by $310,542 due to timing differences to fund working capital requirements in the Canadian operations;
- The US operating loans decreased by $1,337,970, mainly as a result of principal repayments of $1,812,983. This was offset by additional proceeds of $335,725 and foreign exchange loss of

$139,288. The US operating loans drawn at June 30, 2020 had a Canadian equivalent value of $848,343 or $622,500 USD.

- Trade and other payables increased by $314,507 largely as a result of the timing difference in payments;
- Current portion of long term debt increased by $244,281 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, the remaining difference relates to $44,281 in unrealized foreign exchange loss on the revaluation of the USD denominated BDC loans.
- Current portion of lease obligations increased by $105,299 primarily as a result of unrealized foreign exchange losses on the translation of foreign denominated leases, the addition of new leases, offset by lease payments.
- Current portion of the Earn-out Liability is $812,872 USD or $1,107,509 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 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 $135,242 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 undiscounted basis was estimated at $606,564 USD or $860,532 and 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. In 2020, this was revised to $713,434 USD or $972,267.
- The Convertible Note has a face value of $2,500,000 USD and was issued on the acquisition of MOS and matures May 31, 2021, which is within the 12 months of the reporting date. On issuance, the Convertible Note was trifurcated into a conversion feature, prepayment feature and a debt host contract. At June 30, 2020 the Convertible Note had an aggregate carrying value of $3,541,308.

Total non-current liabilities increased by $976,310. This increase in aggregate is summarized below:

- Long term debt increased by $26,119 as a result of 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 $17,759 primarily as a result of unrealized foreign exchange losses on the translation of foreign denominated leases, the addition of new leases, offset by lease payments. In total, between current and long term, non-cash additions were $305,270 and unrealized foreign exchange losses were $62,491. These were offset by principal repayments of $244,703.
- Earn-out Liability is $562,015 USD or $765,914 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.
- On April 22, 2020, the Company issued unsecured convertible debenture with a total principal amount of $5,500,000 at a price of $1,000 per debenture with a maturity of April 22, 2023. On issuance, the Convertible Debenture was trifurcated into a host debt contract, prepayment and equity features. At June 30, 2020 the Convertible Debenture debt features had an aggregate carrying value of $4,058,420.
- The deferred tax liability decreased by $72,522 due to lower profitability in our US operations.

Shareholders’ Equity decreased by $533,323. This increase in aggregate is summarized below:

- Share capital increased by $1,507,901 on the exercise of 3,329,181 warrants which resulted in the same number of common shares being issued. Cash proceeds of $1,145,844 were received and $362,057 was reclassified from contributed surplus relating to this exercise.
- The Convertible Debenture has a conversion feature, which is classified as equity with an aggregate carrying value of $588,414. In addition, the broker warrants issued as part of the transaction costs for this financing was also classified as equity and assigned a fair value of $299,750.
- Contributed surplus decreased by $289,954 as a result of the aforementioned reclassification of $362,057 to share capital on the exercise of warrants being offset by non-cash stock based compensation of $72,103.
- Accumulated other comprehensive income increased by $405,763 due to the unrealized foreign exchange loss on the translation of MOS, PIGCO and Cematrix USA for the six months ended June 30, 2020 as the USD depreciated.
- The Deficit increased by $1,978,551 due to the loss to common shareholders for the six months ended June 30, 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 June 30, 2020 and June 30, 2019

The cash position of the Company at June 30, 2020 was $3,875,216 (consisting of cash in the bank of $3,977,923 net of the bank overdraft of $102,707) compared to a cash position of $791,804 (consisting of cash in the bank of $906,654 net of the bank overdraft of $114,850) at June 30, 2019.

The change in cash in the second quarter of 2020 was an increase of $2,811,915 as compared to an increase of $565,740 in the same period of 2019. This change is outlined in the table below:

	Three Months Ended June 30		
	2020	2019	Change
Cash generated from (used in) operating activities			
Before non-cash working capital adjustment	**$ 351,958**	$ 653,286	$ (301,328)
Net change in non-cash working capital items	**(1,257,853)**	168,945	(1,426,798)
	(905,895)	822,231	(1,728,126)
Cash generated from (used in) investing activities	**4,791**	(147,758)	152,549
Cash generated from (used in) financing activities	**3,764,039**	(114,562)	3,878,601
Foreign exchange effect on cash	**(51,020)**	5,829	(56,849)
Increase in cash	**2,811,915**	565,740	2,246,175
Cash at beginning of period	**1,063,301**	226,064	837,237
Cash at end of period	**$ 3,875,216**	$ 791,804	$ 3,083,412

- Cash generated from operating activities decreased by $1,728,126.
  - Cash flow before non-cash working capital adjustments decreased by $301,328 mainly as a result lower revenues in Canada and the addition of fixed operating costs associated with the PIGCO acquisition.
  - Net change in non-cash working capital items decreased by $1,426,798 primarily due to the level of trade receivables generated in the respective periods and the timing of their collection.

- Cash generated from investing activities increased by $152,549.
  - Property and equipment additions decreased by $126,277 in the absence of a upgrade to a wet mix unit in the second quarter of 2019.
  - Proceeds on the sale of equipment were $3,500 in the second quarter of 2020.
  - Intangible asset spending relating to product testing decreased by $11,332. Expenditures of $1,155 (entirely comprised of capitalized internal labour) were incurred in the second quarter of 2020 compared to $12,487 (including $2,488 of capitalized internal labour) in the second quarter of 2019.
  - The Company received $11,440 in share acquisition loan repayment in the second quarter of 2020.
- Cash generated from financing activities increased by $3,787,601.
  - In 2020 the Company generated $3,764,039 from financing activities. The Company received net proceeds of $4,835,607 on a new $5,500,000 Convertible Debenture and $765,724 from the exercise of warrants during the quarter. This was offset partially by repayments of $1,666,608 on its existing US operating loan, scheduled repayments of $136,772 on lease obligations and $33,912 on its operating loans.
  - In 2019 the Company used $114,562 for financing activities. The Company drew an additional $141,069 on its long term debt to fund upgrades on existing equipment during the quarter. This was offset by repayments of $205,334 on its operating loan and scheduled repayments of $50,297 on lease obligations.

Comparison of the Six Months ended June 30, 2020 and June 30, 2019

The cash position of the Company at June 30, 2020 was $3,875,216 (consisting of cash in the bank of $3,977,923 net of the bank overdraft of $102,707) compared to a cash position of $791,804 (consisting of cash in the bank of $906,654 net of the bank overdraft of $114,850) at June 30, 2019.

The change in cash in the second quarter of 2020 was an increase of $3,219,156 as compared to an increase of $672,166 in the same period of 2019. This change is outlined in the table below:

	Six Months Ended June 30		
	2020	2019	Change
Cash generated from (used in) operating activities			
Before non-cash working capital adjustment	**$ (515,806)**	$ 189,396	$ (705,202)
Net change in non-cash working capital items	**(214,639)**	770,593	(985,232)
	(730,445)	959,989	(1,690,434)
Cash used in investing activities	**(42,791)**	(361,342)	318,551
Cash used in financing activities	**3,948,948**	83,773	3,865,175
Foreign exchange effect on cash	**43,444**	(10,254)	53,698
Increase in cash	**3,219,156**	672,166	2,546,990
Cash at beginning of period	**656,060**	119,638	536,422
Cash at end of period	**$ 3,875,216**	$ 791,804	$ 3,083,412

- Cash generated from operating activities decreased by $1,690,434.
  - Cash flow before non-cash working capital adjustments decreased by $705,202 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 decreased by $985,232 primarily due to the level of trade receivables generated in the respective periods and the timing of their collection.

- Cash generated from investing activities increased by $318,551.
    - Property and equipment additions decreased by $323,710 in the absence of a upgrade to a wet mix unit in the first six months of 2019.
    - Proceeds on the sale of equipment were $3,500 in the first six months of 2020 compared to $41,000 in the first six months of 2019;
    - Intangible asset spending relating to product testing decreased by $20,901. Expenditures of $2,632 (entirely comprised of capitalized internal labour) were incurred in the first six months of 2020 compared to $23,533 (including $3,462 of capitalized internal labour) in the first six months of 2019.
    - The Company received $11,440 in share acquisition loan repayment in the first six months of 2020.
- Cash generated from financing activities increased by $3,865,175.
    - In 2020 the Company generated $3,948,948 from financing activities. The Company received net proceeds of $4,835,607 on a new $5,500,000 Convertible Debenture, $1,145,844 from the exercise of warrants during the first half of 2020 and $335,725 on a new $250,000 USD operating loan. This was offset by repayments of $1,812,983 on its existing US operating loan, scheduled repayments of $244,703 on lease obligations and $310,542 on its operating loans.
    - In 2019 the Company received $83,773 from financing activities. The Company received a further $319,445 on an equipment loan provided by the BDC to finance upgrades on two pieces of equipment. This was offset by repayments of $133,992 on its operating loan and scheduled repayments of $101,680 on lease obligations.

G. Liquidity and Capital Resources

Liquidity

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

The Company, through its wholly owned subsidiary CEMATRIX Canada, has a $1,500,000 bank operating loan with the Canadian Western Bank ("CWB" or "Bank"). Under the bank operating loan, the Bank will advance up to $1,500,000 based on 75% and 50% of Canadian and Cematrix (USA) trade receivables (less than ninety days), respectively outstanding at the end of each month and 50% of inventories (up to a maximum $250,000). Based on these restrictions, $1,053,300 of the bank operating loan was available at June 30, 2020 with $629,717 being drawn.

The bank operating loan bears interest at 4.45% and is set at the greater of 4.70% 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 no 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 debt and earn-out liability. Tangible net worth is defined as equity and includes the value of the convertible debt.

- 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 June 30, 2020, Cematrix (Canada) Inc. was in compliance with the consolidated debt to tangible net worth and current ratio covenants and its important to note that the convertible note that became current in the quarter does not affect the Company's banking covenants. In addition, those notes are in the money and therefore, expected to be converted to shares on or before the expiry date of May 31, 2021.

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.

The Company, through its wholly owned subsidiary PIGCO, has a $430,000 USD loan. The loan is repayable in 12 equal monthly payments starting November 1, 2019 and does not bear interest. At June 30, 2020 the Canadian equivalent of this loan was $195,334.

The Company, through its wholly owned subsidiary Cematrix (USA) Inc., has a $575,000 USD loan. 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 loan has a balance of $479,167 USD at June 30, 2020 with a Canadian equivalent value of $653,009.

The Company, through its wholly owned subsidiary MOS, had a $750,000 USD loan. The loan was repayable on July 31, 2020 with an annual interest rate of 14%, payable monthly. At December 31, 2019 the Canadian equivalent of this loan was $974,100. 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 an 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 repaid on June 1, 2020 from proceeds received through the debenture offering completed on April 22, 2020.

On April 22, 2020, the Company closed a 3 year unsecured convertible debenture financing which resulted in net proceeds of $4,835,607.

At June 30, 2020, the Company had Net Working Capital of $3,577,070 compared to $3,323,286 at December 31, 2019.

For the six months ended June 30, 2020, the Company reported negative cash flow from operations before net change in non-cash working capital items of $515,806 and a positive EBITDA of $154,382. This is not considered unusual, as most of the first two quarters are considered offseason for construction related applications.

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 $80.2 million in sales contracts, contracts in progress and new sales over the next 2-3 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 to the Condensed Consolidated Financial Statements, was $24,069,226 at June 30, 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

Upon acquisition of PIGCO in October 2019, the Company agreed to pay an annual earn-out payment to the Vendor for four years following the closing date of the acquisition. The earn-out payment is calculated on the operations of PIGCO and pay 65% of the annual EBITDA above $0.5 million USD to the Vendor, ending August 31, 2023.

I. Transactions with Related Parties

During the three and six months ended June 30, 2020, the Company incurred legal fees from a firm which employs one of the directors of the Company in the amount of $889 (2019 - $26,053 and $39,207, respectively) of which $nil is in trade and other payables as at June 30, 2020 (December 31, 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 retrospective approach. The new standard requires a lessee to recognize a liability to make lease payments (the lease liabilities) and an asset to recognize the right to use the underlying asset during the lease term (the lease assets) in the statement of financial position.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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 debt 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 $6,550,898 at June 30, 2020 and the Loan, which had a balance at June 30, 2020 of $629,717 are subject to floating market rates. Based on the floating rate debt outstanding as at June 30, 2020, a 1% increase/decrease in interest rates would result in a decrease/increase in net loss attributable to common shareholders of approximately $52,500.

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 June 30, 2020, 14 customers accounted for approximately 68% of trade receivables (at December 31, 2019, 16 customers accounted for approximately 75% of trade receivables). For the six months ended June 30, 2020, 10 customers accounted for approximately 84% of revenue. At June 30, 2020, the Company had $3,977,923 of cash and cash equivalents (2019 - $820,474), an $80,000 term deposit (2019 - $80,000) and $26,943 (2019 - $38,071) of fair valued share acquisition loans that are outstanding with 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 as at June 30, 2020 and December 31, 2019 based on contractual undiscounted payments.

	Less than 1 year	1 to 2 years	2 to 6 years	Total
As at June 30, 2020				
Bank overdraft	**$ 102,707**	**$ -**	**$ -**	**$ 102,707**
Bank operating loan	**629,717**	**-**	**-**	**629,717**
US operating loan	**848,343**	**-**	**-**	**848,343**
Trade and other payables	**2,687,060**	**-**	**-**	**2,687,060**
Long-term debt	**1,466,429**	**1,320,620**	**4,763,849**	**7,550,898**
Lease obligations	**551,300**	**546,573**	**997,357**	**2,095,230**
Earn-out liability	**1,107,509**	**765,914**	**-**	**1,873,423**
Convertible debt	**3,541,308**	**-**	**4,058,420**	**7,599,728**
	$ 10,934,373	**$ 2,633,107**	**$ 9,819,626**	**$ 23,387,106**

	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 debt	-	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 June 30, 2020 and December 31, 2019, the following balances were denominated in USD:

		2020		2019
Cash and cash equivalents	**$**	**1,046,319**	$	583,193
Trade and other receivables	**$**	**2,132,508**	$	1,718,472
Prepaid expenses and deposits	**$**	**94,251**	$	101,439
Trade and other payables	**$**	**1,129,778**	$	851,655
US operating loan	**$**	**622,500**	$	1,683,333
Long term debt	**$**	**4,225,000**	$	4,225,000
Finance lease obligations	**$**	**827,082**	$	918,177
Earn-out liability	**$**	**1,374,687**	$	1,168,646
Convertible debt	**$**	**2,598,553**	$	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 June 30, 2020 a 1% increase/decrease of the USD against the Canadian dollar would result in an increase/decrease in total comprehensive loss of approximately $75,000.

M. Disclosure of Outstanding Share Data

As at June 30, 2020 and August 6, 2020, the following is a description of the outstanding equity securities and convertible securities previously issued by the Company

	Authorized	Outstanding as at June 30, 2020	Outstanding as at August 6, 2020
Voting or equity securities issued and outstanding	Unlimited Common Shares	62,765,200 Common Shares	63,860,075 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 4,503,334 Common Shares at an exercise price at between $0.18 - $0.43	Stock options to acquire 4,453,334 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 12,174,996 Common Shares at an exercise price at between $0.30 - $0.35	Share purchase warrants to acquire 11,130,121 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	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	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

Even though, the COVID-19 situation is starting to result in more and more project delays, management continuous to be optimistic on the outlook for balance of 2020 and beyond. Most important to management and our investors is that the projects are not cancelled, just delayed, which is resulting in projects taking longer to be designed and tendered; approved and contracted; and safely managed to completion.

Management also remains bullish on the longer-term prospects of the business, as the backlog of sales contracts continues to grow and currently sits at $80.2 million. The number and size of such projects continues to grow as well, as evidenced by the recent tender of a project that exceeds $22.4 million USD in gross sales (see the Mid Year Highlights section of this report for a full description).

Liquidity has improved with the closing of the unsecured convertible debenture financing on April 22, 2020 which resulted in net proceeds of $4.8 million. Of this, $1.4 million was used to repay the MOS operating loans, which had a principal balance of $1.0 million USD and paid interest at a rate of 14% per annum. The residual is being kept in cash and cash equivalents with the intention of preserving the financial capacity of the Company.

This cash, together with cash generated from operations and on-going exercise of warrants has put the Company in a strong position moving forward.

Appendix A – Forward Looking Statements

The forward-looking statements in the MD&A for the three and six months ended June 30, 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.

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.