CEMATRIX™

Cellular Concrete Solutions

# CEMATRIX CORPORATION

# Management's Discussion and Analysis

*For the Year Ended December 31, 2020*

Date Completed: April 14, 2021

**CEMATRIX CORPORATION**
**www.cematrix.com**

## Form 51-102F1 - Management's Discussion & Analysis
## For the Year Ended December 31, 2020

*The following is the management's discussion and analysis ("MD&A") of CEMATRIX Corporation ("CEMATRIX" or the "Company") for the year ended December 31, 2020. This MD&A should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2020 and the related notes thereto ("Consolidated Financial Statements") and the audited consolidated financial statements and MD&A of the Company for the year ended December 31, 2019 and related notes thereto. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations of the International Reporting Interpretation Committee ("IFRIC"). 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 Consolidated Financial Statements and MD&A for the year ended December 31, 2020. The Board of Directors of the Company reviewed and approved these Consolidated Financial Statements and MD&A on April 14, 2021.

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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 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 year ended December 31, 2020, the Company's financial condition as at December 31, 2020 and its future prospects.

**B. Highlights**

**COVID 19 ("the Pandemic")**

On March 11, 2020, the World Health Organization declared COVID19, which has the potential to cause severe respiratory illness, a global pandemic. With the majority of governments across the jurisdictions in which CEMATRIX operates declaring a state of emergency in response to the COVID-19 pandemic, CEMATRIX operations in 2020 were impacted at varying times and in particular in the fourth quarter by way of suspensions of certain of the Company's projects, either by its clients or due to a broader government directive, by disruption to the progress of projects due to the need to modify work practices to meet appropriate health and safety standards.

CEMATRIX has activated a rigorous COVID-19 health and safety process, which meets or exceeds guidance by applicable government health authorities, to minimize disruptions to its business and adapt to evolving market conditions and safety standards. These plans include, heightened hygienic and disinfection practices, physical distancing, provision of additional personal protective equipment to front line workers, team separation and staggered work hours where possible, as well as extensive technology-enabled remote work initiatives.

CEMATRIX continues to monitor developments and mitigate risks related to the COVID-19 pandemic and the impact on our customers projects and most importantly the health and safety of its employees. At this time, all of the governments across the jurisdictions in which CEMATRIX operates have deemed the types of construction projects that constitute the majority of our work to be essential services and, therefore, operations are broadly continuing, although in many cases on a modified basis. As this situation may continue to evolve for some time, shifting directives and policies from clients and governments are expected to continue. CEMATRIX's financial position, liquidity and capital resources remain strong, and are expected to be sufficient to finance its operations and working capital requirements for the foreseeable future.

***Financial***

The Company had another year of significant growth, which resulted in record revenues for the year and an important step towards sustainability. Revenues were $26.6 million, an increase of $4.0 million or 18%, compared to $22.6 million in 2019. Gross Margin and Gross Margin Percentage were $5.6 million and 21% respectively for 2020 compared to $5.8 million or 26%, when compared to 2019, a decrease of $0.2 million or 3%. The revenue generated from the PIGCO acquisition amounted to $10,327,590. In addition, MOS contributed $11,101,027 in sales while Canadian sales amounted to $5,135,523 in 2020.

Liquidity continues to be a focus for management and the cash flow being generated from the business is a significant part of that equation. Management believes that "Funds from Operations" is the best measure for capturing this metric and it is defined as cash flow from operating activities before the net change in non-cash working capital. For the full year 2020, funds from operations was $1,524,601 compared to $1,180,758 in 2019.

Adjusted EBITDA in 2020 was $1,291,903, a decrease of $1,653,319, or 56% compared to an EBITDA of $2,945,222 in 2019.

### *Unusual one-time / non-cash item in the fourth quarter and the year*

In the fourth quarter, the Corporation recorded a $6.0 million non-cash fair value adjustment expense and a corresponding increase in current liabilities under the current portion of convertible debt – non-cash derivative liability due to the IFRS accounting treatment for embedded derivatives related to the MOS convertible note. The adjustment is due to the increase in the price of the Company's shares compared to the conversion price of the note. The closing share price on December 31, 2020 was $0.72 per share, as compared to the stated convertible share price at acquisition of $0.2375 per share. The convertible note matures on May 31, 2021 and will be repaid or converted to equity on that date. In the event that the MOS convertible note is repaid, the fair value adjustment will be reversed, thus resulting in a corresponding $6.0 million gain to be recorded in Q2 2021. In the event that the MOS convertible note is converted, the non-cash derivative liability will be reclassified to equity and not flow through the income statement.

### *Growing Backlog – New Project Awards*

The Company was awarded the two largest projects in our history in 2020 and as a result significantly grew our Backlog.

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.

In December 2020, the CEMATRIX group of companies was awarded a $23.5 million USD tunnel project. This contract is the single largest project, that the Company has been awarded in its history, in terms of project revenues. This project is scheduled to begin in 2023 and be completed in 2024.

With the addition of these two projects the Company's Backlog as of the filing date of this MDA is $94.4 million.

### *Financings*

As a result of our convertible debenture financing in 2020 and subsequent public offering financing in 2021 the Company's financial position is very healthy. In addition, with the increase in the share price over 2020 the Company has seen a number of warrants and options be exercised bringing in additional capital. The completed financings coupled with the Company's positive cashflow from operations has dramatically improved the Company's balance sheet.

The Company completed a $5.7 million financing of 8% convertible debentures on April 22, 2020. The debenture offering was over-subscribed indicating strong investor interest in the Company.

As the share price increased through out the year, and in particular during the fourth quarter, the Company experienced an increase in the exercise of Warrants and Options. For the year ended December 31, 2020, 5,069,481 warrants, 108,750 broker warrants and 200,000 options were exercised, bringing in an additional $1,765,004 in cash. The Company uses these funds for general working capital purposes including operating debt reduction.

Subsequent to year end, the Company completed a short form prospectus raising $23 million in gross proceeds. Once again, the offering was heavily oversubscribed indicating continued investor interest and support of the Company.

***Canadian Highways Research Project***

The University of Waterloo is currently working on a research program that will measure the performance of cellular concrete as a roadway subbase over week and unstable soils. This program is co-funded by CEMATRIX and the Natural Science and Engineering Research Council of Canada (NSERC). The project includes both laboratory testing and multiple instrumented roadway test sections. The first test section was successfully installed in October 2018 in The Region of Waterloo, with another longer section to be installed in 2021. The preliminary results of lab and field tests have been highly encouraging, showing potential for much longer lasting highways when compared to traditional construction. Completion of the research program is scheduled for Q4 2021.

**C. Corporate Overview**

Through its wholly-owned subsidiaries CEMATRIX (Canada) Inc., CEMATRIX (USA) Inc. (“Cematrix USA”), MixOnSite USA, Inc. (“MOS”) and Pacific International Grout Co. (“PIGCO”), CEMATRIX uses specially developed equipment and proprietary or exclusive use foaming agents to produce and pour cellular concrete for various applications in the infrastructure, industrial and commercial construction markets.

Cellular concrete is a cement slurry-based product that is combined with air to result in a very lightweight, foamed concrete-like material that has thermal insulating qualities with moderate structural strength. It is generally lighter than water and is used as a replacement for rigid and other types of insulation and as a lightweight fill or a void fill, which includes tunnel grouting.

The Company’s current market focus is in the construction market for infrastructure in Western Canada, Ontario and Quebec and the United States of America (“U.S.”).

The infrastructure market sector primarily relates to work on public construction projects that are funded by provincial, state and federal governments. Some examples of this type of work are as follows: the insulation of road bases; the protection of permafrost under buildings, utilities, roads and runways; the insulation of shallow utility installations; industrial and commercial floor bases; the replacement of weak and/or unstable soils and soils that are subject to seismic conditions; mechanical stabilized earth (“MSE”) panels and retaining wall backfill; grouting; and tunnel backfill. Work in this sector generally requires the prior approval of the Company’s various products and applications by local regulatory bodies.

The Company’s revenue is recognized as the Company processes and places the cellular concrete on site, based on the number of cubic metres processed and placed.

The nature of the Company’s sales is generally “one-off” type sales, meaning there is little in the way of carry over in sales from year to year with the same customer; except to the extent that the Company has repeat business related to a specific application or location, or a project is sufficiently large in scope, that it continues from one period into the next. The goal is to increase this type of repeatable and predictable source of revenue. The Company work is generally as a sub-contractor to various engineering and construction firms who are awarded the prime contract from the owner of the particular project.

The Company has two distinct types of production equipment - dry mix and wet mix. Dry mix production equipment is fully automated and the cement slurry mixing process is done directly from cement and other dry powders. This equipment permits the production of high hourly volumes. The dry mix system enables the Company to improve the quality of its end product, while reducing its unit cost by up to 20% as compared to the wet mix process. However, the dry mix process is typically not suitable for small to medium sized projects because of the higher costs associated with mobilization together with the onsite space required for set up. Wet mix production equipment is partially automated and the pre-designed cement slurry required is delivered by a Ready Mix provider; this equipment has lower hourly production capability and is suitable for small volume projects or projects where there is no space for the larger dry mix units.

The Company’s fleet of production equipment currently consists of ten dry mix units that can produce up to 230 cubic metres per hour of cellular concrete and eight wet mix units that have the capability of producing from 50 to 100 cubic metres per hour of cellular concrete. The fleet is mobile and can be moved to any project in North America.

The value proposition that CEMATRIX offers to customers is as follows:

*CEMATRIX cellular concrete saves significant time and money for its customers and provides a better overall long term construction solution (the "Value Proposition").*

The Company`s customer service solution is supported by acquired and internally developed technologies that enable the production of high volumes of consistent, low density insulating cellular concrete; the North American exclusive rights to a protein based foaming agent and an acquired synthetic foaming agent formula; the proprietary material mix design expertise; the technical support for thermal and structural design to assist engineering firms in the design of applications for cellular concrete; and internally designed and constructed specialty equipment for the production of cellular concrete.

Over the years the Company has invested in additional staff and equipment in order to prepare for what management believes will be a significant increase in annual sales, as the Company's product reaches the "tipping point' for a number of applications. Tipping point refers to the point in time where customers decide that they will use the Company's product, as opposed to alternative products, for certain applications (i.e. all bridge abutment work, or all MSE panel backfill or all the insulation of oil sand modules etc.). The tipping point for oil and gas applications began to be realized for oil and gas construction before the financial crisis of 2008/9 and the significant oil price decrease in 2014/15, but have ended with those events. Revenue from oil and gas applications has never rebounded because the related construction has become negligible. The Company is now working towards the tipping point for various infrastructure type applications. The cost of this investment, in terms of additional staff and equipment, has negatively affected the financial results over the past few years, however, it has helped to put the Company in a better position to achieve sales growth, as it occurs and to utilize its economies of scale with the acquisition of MixOnSite and Pacific International Grout Co. in the US.

The Company's head office is located in Calgary, Alberta.

**D. Business Strategy for Growth and Shareholder Value Creation**

CEMATRIX's strategy is to increase shareholder value by expanding and continuing to be the leading supplier of competitively priced, high volume, high quality cellular concrete in North America. This business strategy is centered on the following key elements:

- Establish and maintain a strong financial position;
- Grow the business through:
    - Organic growth including the building of a foundation of key proven applications throughout North American markets;
    - Regional expansion, particularly in the United States where the cellular concrete market is experiencing significant growth. This may include the addition of one or more of our technologically advanced cellular concrete processing units; and
    - Value added acquisitions of other cellular concrete applicators, suppliers and/or complimentary companies;
- Retention, recruitment and maintenance of an experienced and focused management, operations and support teams;
- Continue to realize synergies by fully integrating past US acquisitions;
- Development and acquisition of technologies to maintain our position as market leaders and competitiveness; and
- Continued development of strategic alliances to support research and development, to supply raw materials and to develop new products and markets.

Since the development and implementation of this strategy, CEMATRIX has improved its financial position, increased its equipment fleet through the acquisitions of PIGCO and MOS; grown its infrastructure sales in both Canada and the U.S.; advanced its strategic alliances with Lafarge and others; expanded regionally into the Canadian Prairies and in part to both the West Coast of Canada and the Ottawa/Montreal regions; retained and added to its key management and support teams; have continued the development of its products and technologies and is now contemplating other complimentary acquisitions.

**E. Key Market Drivers**

The primary drivers in the marketplace that affect the demand for the Company's cellular concrete include the following:

***Product Acceptance Through Education of the Market***

CEMATRIX's mission statement is to gain broad market acceptance of its product for various applications throughout North America, with its main focus on Canadian infrastructure and now U.S. infrastructure applications through its recently acquired U.S. subsidiaries MOS and PIGCO. The successful implementation of this vision is dependent on its product becoming accepted by more of the project design engineers and specifiers. These individuals are in charge of the engineering and design of infrastructure projects, the materials that can be used in various projects and the determination of whether cellular concrete can be considered for a particular application.

Extensive education and marketing to geotechnical and design engineers has been, and continues to be, completed by the Company to demonstrate its value proposition for cellular concrete for a number of applications.

The Company's ongoing education and marketing program, together with the experience generated from projects throughout its markets in Canada and the U.S., has improved the acceptance by a number of design engineers, particularly in Canada where CEMATRIX continues to develop new markets. For some applications in these new markets, cellular concrete will also need to be accepted and become an approved product by various municipal and provincial government departments.

In this regard, in Canada, CEMATRIX has obtained, or is in the process of obtaining, the various approvals in all provinces and territories that it currently operates in.

In the U.S., cellular concrete is already an approved product for various infrastructure applications in most regions of the U.S. and in fact the market development in the U.S. is probably more than ten years ahead of the development of cellular concrete in Canada, a market which has been developed mostly by CEMATRIX on its own, since the early 2000's. The Canadian market is significantly different than the U.S. where there are a number of larger competitors, which had included MOS, PIGCO and significantly smaller producers, all of whom have been developing their markets for a long period.

Continued product acceptance by the engineering community, provincial/state transportation departments and project owners is the most important primary driver in generating the Company's sales growth.

***Sole Source High Volume Provider in Canada***

When engineering firms or companies are considering specifying cellular concrete into a specific project, particularly in projects related to oil sands and refinery construction, a concern that can arise is the fact that CEMATRIX is the sole provider of high volume cellular concrete in Alberta and for many other regions of Canada. Their concern is that if CEMATRIX is not available to complete their project, then there may be no one else that can do the work as specified. In many cases, this will mean that the project will have to be re-engineered because cellular concrete is not a one for one direct replacement to the products that it replaces. This is not of an issue for infrastructure applications because there are other more expensive product solutions that may be specified as an alternative to the Company's product.

In some instances, owners of projects will not allow the use of a sole provider and others continue to be hesitant to do so, because the costs of re-engineering could be prohibitive. This practice has slowed the development of CEMATRIX's product penetration in Western Canada and has affected the development of other markets in Canada. The Company continues to work with customers, specifiers and design engineers to ensure that the benefits of the CEMATRIX products and services warrant the use of a sole source provider and to ensure these customers that CEMATRIX will be around to be that provider.

The strengthened relationship with Lafarge will benefit the credibility of CEMATRIX as a sole source supplier.

If engineering firms and companies do not accept the nature of CEMATRIX being a sole source supplier this could affect the ability of the Company to grow its sales in the oil and gas construction market.

Of note, the problems inherent of being a sole source high volume provider is not an issue in the U.S. because there is greater competition in the U.S. markets with other high volume providers.

***Joint Marketing and Supply Agreements with Lafarge Supporting the Regional Development of Cellular Concrete Markets***

The joint marketing agreement with Lafarge, completed in 2016, is for the joint development of CEMATRIX cellular concrete markets throughout Canada to increase the awareness of the construction challenges which can be solved by CEMATRIX cellular concrete solutions and thereby grow sales.

The agreements with Lafarge for the regional development of CEMATRIX cellular concrete markets for the Ready Mix division of Lafarge, completed in February 2017, are intended to grow sales at various regions in Canada where CEMATRIX does not have a physical presence. The initial agreement was for Winnipeg, Manitoba, and other locations will be added at the direction of Lafarge.

The intent of both agreements is to increase the sale of cellular concrete by CEMATRIX. In addition, the agreements do provide the company with increased credibility in the market and access to raw materials such as cement at far better prices, as compared to prevailing market rates.

Whether the agreements result in significant sales growth for CEMATRIX is still not known other than both companies are committed to making it successful.

***Availability of Capital for Infrastructure Construction***

Government funded infrastructure construction throughout Canada and the U.S. is dependent on the capital funding that is made available to the various municipal, provincial/state and federal governments to make these types of investments. This also affects the timing of projects with which the Company's products could be applicable. Both the Canadian and the U.S. federal, provincial/state and municipal governments continue to allocate significant funds to infrastructure construction, however, the benefit, if any, to CEMATRIX, will be dependent on the type and location of projects to which the infrastructure funds will be allocated.

## F. Key Risks and Uncertainties

Besides the issues discussed under Section D - Key Market Drivers, management has identified the following additional risks and uncertainties:

***Staffing Requirements***

CEMATRIX will always have issues finding experienced individuals to hire for various positions because of the unique nature of its business, but this has become less of an issue with the acquisitions of PIGCO and MOS, and in fact it enables the CEMATRIX group of companies to allocate underutilized operating and technical staff resources between its operating subsidiaries, subject to the limitation created by cross border issues.

***Capital Resource Requirements***

Capital resource requirements must be matched to the demand for the Company's products. If the demand for our product increases more quickly than anticipated, then the Company may face some challenge to react quickly enough to realize the sales opportunities. With the recent acquisitions of MOS and PIGCO, the CEMATRIX group of companies has sufficient capacity for the foreseeable future.

***Project Scheduling***

The Company has no control over the timing of contracted projects. Delays in contracted work can occur at any time. Furthermore, delays in projects can also result in scheduling issues that could prove costly to the Company. The risks associated with scheduling changes will be an ongoing issue for the Company.

***Increasing Cement Commodity Prices***

In previous years the Company has experienced significant increases in the cost of its key raw materials, cement and fly ash. To date, the Company has been able to pass a significant portion of these price increases on to its customers. There is no certainty that this practice will continue, in which case this would reduce the Company's Gross Margin on sales. The Company is currently working towards minimizing any risk by developing equipment that will eliminate the need to rely on higher priced Ready-Mix products for its raw material supply for its projects.

***Competition***

The Company is the largest supplier of cellular concrete in North America. The market in Canada is still developing and is much smaller than the US market. There are no other high volume cellular concrete competitors in the Canadian marketplace. The biggest competition to cellular concrete in Canada would be alternative products. Competition does exist in the low volume cellular concrete market space with a couple of smaller competitors in Ontario and British Columbia. There are more high volume suppliers in the U.S. and other countries where the cellular concrete markets are more developed. Accordingly, the possibility of future competition in Canada exists.

There are a significant number of competitors in the U.S., some of which compete with CEMATRIX in the higher volume market. Competition could result in lost sales or reduced gross margins.

The Company is positioning itself for competition with other suppliers by:

- Developing strong customer and supplier relationships;
- Ensuring that its costs are competitive in relation to costs being incurred by other companies in the industry;
- Developing new materials and processes that continue to place CEMATRIX ahead of the competition's capabilities;
- Striving to ensure that it provides the best in cellular concrete technology, including thermal modeling and structural design assistance, material mix designs, foaming agents and processing equipment.

***Product Warranties***

The Company has not experienced warranty claims during its existence due to the nature of its product and does not accrue any expense related to possible warranty claims. Even though the Company's products are used in very low risk applications (i.e. replacement of dirt or rigid insulations), the potential exists for such warranty claims being made. The Company works to minimize this risk through ongoing material mix design, product and equipment development and by requiring highly trained quality control staff to be on hand for all projects to check and monitor all input and end product materials.

***COVID-19 Pandemic***

The COVID-19 pandemic has resulted in governments worldwide enacting emergency measures to combat the spread of the virus, including travel restrictions, self-imposed quarantine periods and physical distancing measure that have caused disruption to businesses and resulted in economic slowdown. The depth of the impact of the COVID-19 pandemic on North American economy continues to evolve, with disruptive effects in jurisdictions in which CEMATRIX operates. While some government measures, to varying degrees across regions, have eased the impact on economy, subsequent surges in COVID-19 have caused and could continue to cause, some restrictive measures to be reinstated and therefore, future economic activity to be uncertain.

The COVID-19 pandemic continues to impact CEMATRIX business. Although, the company has been generally exempted from mandates requiring closures of non-essential businesses and therefore, has been able to continue operations, revenues in 2020 was negatively impacted by the COVID-19 pandemic and related government measures. Certain projects that were expected to initiate at a certain point in time were delayed and deferred to a future date. These impacts may continue to occur in 2021 or future periods, with unpredictable timing or frequency. The Company continues to monitor these developments and the impact of the risks related to COVID-19 pandemic on its operations and health and safety of its employees.

## G. Operations and Overall Performance

***Results of Operations***

***Comparison of the Three Months Ended December 31, 2020 and December 31, 2019***

| | Three Months Ended December 31 | | |
|---|---|---|---|
| | **2020** | 2019 | Change |
| Revenue | **$ 4,386,458** | $ 5,294,288 | $ (907,830) |
| Gross margin | **$ 383,031** | $ 1,054,424 | $ (671,393) |
| Operating expenses | **(1,898,655)** | (1,593,745) | (304,910) |
| Operating loss | **(1,515,624)** | (539,321) | (976,303) |
| Non-cash stock based compensation | **(9,608)** | (54,387) | 44,779 |
| Finance costs | **(387,395)** | (333,190) | (54,205) |
| Other income | **1,131,714** | 1,406,365 | (274,651) |
| Amortization of intangibles | **(186,472)** | (188,905) | 2,433 |
| Acquisition costs | **-** | (27,195) | 27,195 |
| Accretion costs | **(143,759)** | (105,780) | (37,979) |
| Revaluation of earn-out liability | **191,322** | (21,788) | 213,110 |
| Non-cash fair value of derivatives | **(6,191,723)** | 331,262 | (6,522,985) |
| Income (loss) before income taxes | **(7,111,545)** | 467,061 | (7,578,606) |
| Provision of deferred taxes | **944,779** | 260,137 | 684,642 |
| Provision of current taxes | **(223,615)** | (23,184) | (200,431) |
| Net income (loss) attributable to the common shareholder | **(6,390,381)** | 704,014 | (7,094,395) |
| Unrealized foreign exchange loss on translation of foreign subsidiaries | **(510,803)** | (190,422) | (320,381) |
| Comprehensive income (loss) | **$ (6,901,184)** | $ 513,592 | **$** (7,414,776) |
| Fully diluted gain (loss) per common share | **$ (0.098)** | $ 0.012 | $ (0.11) |

Revenue was $4,386,458 in 2020 compared to $5,294,288 in 2019, a decrease of 17% or $907,830. The decrease was mainly due to lower sales in Canada, as a result of deferral of a number of projects to next year, due to COVID-19 pandemic.

Gross Margin was lower by $671,393 or 64% when compared to the fourth quarter of 2019. As a percentage of revenues, the Gross Margin Percentage declined to 9% compared to 20% in 2019. The decrease in Gross Margin Percentage was largely related to the fixed costs not being sufficiently absorbed by the lower than anticipated sales. Further complicating the issue in Canada has been the need to retain the experienced trained operating staff, even though sales were significantly lower than anticipated. In addition, we have been unable to utilize staff in other locations in Canada because of the inability to fly staff from one region to another during the pandemic.

Operating expenses were higher by $304,910 or 19% mainly due to the aggregate of the following:

- Salaries, benefits and commissions increased by $229,853 as a result of additional full-time employees and severance costs;
- Insurance costs increased $39,752 as a result of premium increases;
- Audit and tax fees increased $27,000 as a result of the growth in the company and PIGCO acquisition;
- Investor relations and consulting costs increased $10,836 in support of the convertible debenture financing and the growth of the company;

Non-cash stock based compensation expense was $9,608 in the last quarter of 2020 compared to $54,387 in the last quarter of 2019. The decrease of $44,779 is mainly the result of fewer options being issued in the fourth quarter and the completion of the vesting of certain options from previous years.

Finance costs were $387,395 in the fourth quarter of 2020 compared to $333,190 in the same period in 2019, an increase of $54,205. The increase can be mainly attributed to the $5,720,000 unsecured convertible debenture financing which closed on April 22, 2020. The convertible debenture resulted in additional interest of $107,867 in the fourth quarter of 2020. This was partially offset by lower finance costs on BDC loans in the fourth quarter due to the principal payments made in the earlier periods.

Other income was $1,131,714 in the fourth quarter of 2020 compared to a gain of $1,406,365 in the fourth quarter of 2019. Other income in the fourth quarter of 2020 mainly relates to $781,369 in government wage and rent subsidies in relation to the COVID-19 pandemic, a reduction of $108,696 to PIGCO earn-out liability and a $228,018 in unrealized foreign exchange gain which is caused by swings in foreign exchange rates on the following USD denominated liabilities: USD BDC Loan of $77,116 and MOS USD convertible note of $149,181. As the Canadian dollar strengthened to the USD, the value of these liabilities decreased, which gives rise to an unrealized foreign exchange gain. Other income in the fourth quarter of 2019, mainly relates to the gain of $1,278,468 on the PIGCO acquisition and unrealized foreign exchange gain of $98,693.

Amortization of intangibles was $186,472 in the fourth quarter of 2020 compared to $188,905 in the fourth 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 and was being amortized into income. MOS sales backlog has been fully amortized as of September 30, 2019, while PIGCO sales backlog is being amortized over a period of October 1, 2019 to December 31, 2021.

Acquisition costs in the prior year period were $27,195 and relate to the acquisition of PIGCO which closed on October 1, 2019. There were no acquisition costs in the current period.

Accretion costs were $143,759 in the fourth quarter of 2020 compared to $105,780 for the same period in 2019. Accretion expense on the host debt contract of the new convertible debenture was $70,310, accretion relating to the remaining tranches of the earn-out liability was $48,815 and accretion on the host debt contract of the convertible note was $24,634. 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, which is May 31, 2021. The new convertible debenture was issued April 22, 2020 and has a maturity date of April 22, 2023.

The MOS earn-out liability for the third 12-month period ending May 31, 2021, resulted in a non-cash gain of $166,400 in the fourth quarter of 2020. The remaining adjustment of $24,922 was in relation to MOS earn-out liability for the second 12-month period. In 2019, the non-cash loss of $21,788 was in relation to second 12-month period of MOS earn-out liability.

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 $6,318,875 in the fourth quarter of 2020 resulting in a loss for the same amount compared to a decrease of $331,262 in the fourth quarter of 2019 resulting in a gain in the fourth 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 $127,152 in 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 $510,803, in the fourth quarter of 2020. The same effect occurred in the fourth quarter of 2019 which resulted in an unrealized foreign exchange loss of $190,422.

***Comparison of the year ended December 31, 2020 and December 31, 2019***

| | Year Ended December 31 | | |
|---|---|---|---|
| | **2020** | 2019 | Change |
| Revenue | **$ 26,564,140** | $ 22,550,954 | $ 4,013,186 |
| Gross margin | **$ 5,617,828** | $ 5,776,457 | $ (158,629) |
| Operating expenses | **(6,565,285)** | (5,422,349) | (1,142,936) |
| Operating income (loss) | **(947,457)** | 354,108 | (1,301,565) |
| Non-cash stock based compensation | **(102,762)** | (464,222) | 361,460 |
| Finance costs | **(1,550,235)** | (987,362) | (562,873) |
| Other income | **455,800** | 1,632,337 | (1,176,537) |
| Amortization of intangibles | **(767,737)** | (557,463) | (210,274) |
| Acquisition costs | **-** | (373,844) | 373,844 |
| Accretion costs | **(613,466)** | (493,945) | (119,521) |
| Revaluation of earn-out liability | **80,350** | 443,127 | (362,777) |
| Non-cash fair value of derivatives | **(6,129,654)** | 138,181 | (6,267,835) |
| Loss before income taxes | **(9,575,161)** | (309,083) | (9,266,078) |
| Provision of deferred taxes | **23,529** | 168,634 | (145,105) |
| Provision of current taxes | **(224,519)** | (113,236) | (111,283) |
| Net loss attributable to the common shareholder | **(9,776,151)** | (253,685) | (9,522,466) |
| Unrealized foreign exchange loss on translation of foreign subsidiaries | **(339,987)** | (451,580) | 111,593 |
| Comprehensive loss | **$ (10,116,138)** | $ (705,265) | **$** (9,410,873) |
| Fully diluted loss per common share | **$ (0.158)** | $ (0.005) | $ (0.163) |

Revenue was $26,564,140 for the year ended December 31, 2020, an increase of $4,013,186 or 18%, compared to $22,550,954 recognized in the prior year 2019. The revenue growth was seen in US with sales increasing to $21.4 million compared to $11.3 million in 2019; however, the current year included full year of PIGCO sales. This was partially offset with decreased Canadian sales of $5.1 million in 2020 compared to $11.3 million in 2019. As noted above for the quarter, the Canadian sales has been the most adversely affected from the COVID-19 pandemic.

Gross Margin was $5,617,828 in the fiscal year 2020, a decrease of $158,629, compared to a Gross Margin of $5,776,457 in the prior year period. As a percentage of revenues, the Gross Margin Percentage declined to 21% compared to 26% in 2019, mainly due to the same reasons mentioned above for the quarter.

Operating expenses were higher by $1,142,936 or 21% mainly due to the aggregate of the following:

- Addition of PIGCO operating expenses of $996,248;
- Salaries, benefits and commissions increased by $372,873 as a result of additional full-time employees, temporary labour and severance costs;
- Audit fees increased by $125,949 as a result of the growth in the company and PIGCO acquisition;
- Insurance costs increased $86,828 as a result of premium increases;
- Investor relations and consulting costs increased $46,791 in support of the convertible debenture financing and the growth of the company;
- Legal fees increased by $26,129 on general corporate matters;
- Bad debt decreased by $403,329 due to a reduction of provision recorded in the current year. In the prior year, the Company recognized a credit loss of $455,334 in relation to a U.S. customer filing for Chapter 11.
- Travel and business development decreased by $70,267 due to lower costs associated with management sales, business and investor relations travel.

Non-cash stock-based compensation expense was $102,762 in 2020 compared to $464,222 in 2019. The decrease of $361,460 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. In addition, the expense decreased $210,707, as a result of extending the expiry date of 1,925,000 previously issued stock options by two years in the third quarter of 2019.

Finance costs were $1,550,235 in 2020 compared to $987,362 in 2019, an increase of $562,873. The increase can be attributed to the $5,720,000 unsecured convertible debenture offering which closed on April 22, 2020. The convertible debenture resulted in additional interest of $309,135 in the current year. The cash component of the PIGCO acquisition was financed entirely with a $2,800,000 USD BDC loan, resulting in interest of $313,399. This was partially offset by lower finance costs on BDC loans due to the principal payments made in the earlier periods.

Other income of $455,800 was recognized in 2020 compared to income of $1,632,2337 in 2019. Other income in 2020 mainly relates to $781,369 in government wage and rent subsidies in relation to the COVID-19 pandemic and the current period gain of $97,469 in unrealized foreign exchange which is caused by swings in foreign exchange rates on the following USD denominated liabilities: USD BDC Loan of $31,012 and MOS USD convertible note of $66,192. This was partially offset by $468,014 in non-cash earn-out expense in relation to PIGCO acquisition. Other income in 2019, mainly relates to the gain of $1,278,468 on the PIGCO acquisition and unrealized foreign exchange gain of $259,443.

Amortization of intangibles was $767,737 in 2020 compared to $557,463 in 2019. 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 and was being amortized into income. MOS sales backlog has been fully amortized as of September 30, 2019, while PIGCO sales backlog is being amortized over a period of October 1, 2019 to December 31, 2021.

Acquisition costs in the prior year period were $373,844 and relate to the acquisition of PIGCO which closed on October 1, 2019. There were no acquisition costs in the current year.

Accretion costs were $613,466 in 2020 compared to $493,945 for 2019. Accretion expense relating to the remaining tranches of the earn-out Liability was $265,387, accretion on the host debt contract of the new convertible debenture was $250,762 and accretion on the host debt contract of the convertible note was $97,317 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, which is 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 and third 12-month period ending May 31, 2020 and May 31, 2021, respectively, resulted in a net non-cash gain of $80,350 in 2020. In 2019, the net non-cash gain of $443,127 was in relation to first and second 12 month period ended May 31, 2019 and May 31, 2020, respectively, of the earn-out liability.

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 $6,336,452 in 2020 resulting in a loss for the same amount, compared to a gain of $138,181 in 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 $206,798 in 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 $339,987 in 2020. The same effect occurred in 2019 which resulted in an unrealized foreign exchange loss of $451,580.

## H. Selected Financial Information and Summary of Financial Results

***Annual Results***

The following is a summary of selected audited financial results for each of the five years ended December 31, 2020. No cash dividends have been declared or paid since the inception of the Company.

| | | | Income (Loss) Per Share | | | |
|---|---|---|---|---|---|---|
| **Year Ended** | **Total Revenues** | **Total Comprehensive Income (Loss)** | **Basic** | **Diluted** | **Total Assets** | **Total Non Current Liabilities** |
| | $ | $ | $ | $ | $ | $ |
| **December 31, 2020** | **26,564,140** | **(10,116,138)** | **(0.158)** | **(0.158)** | **28,838,457** | **12,286,730** |
| December 31, 2019 | 22,550,954 | (705,265) | (0.005) | (0.005) | 30,176,582 | 14,402,414 |
| December 31, 2018 | 17,560,716 | (727,813) | (0.027) | (0.027) | 20,421,964 | 9,004,190 |
| December 31, 2017 | 7,713,906 | (1,180,543) | (0.034) | (0.034) | 6,530,062 | 2,042,553 |
| December 31, 2016 | 9,598,861 | (1,097,592) | (0.031) | (0.031) | 7,575,832 | 2,123,907 |

***Quarterly Results***

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** |
| **2020 Year** | | | | |
| **March 31** | **3,931,857** | **(533,688)** | **(0.023)** | **(0.023)** |
| **June 30** | **7,365,858** | **(1,039,100)** | **(0.010)** | **(0.010)** |
| **September 30** | **10,879,967** | **(1,642,166)** | **(0.022)** | **(0.022)** |
| **December 31** | **4,386,458** | **(6,901,184)** | **(0.098)** | **(0.098)** |
| **Total for year** | **$ 26,564,140** | **$ (10,116,138)** | **$ (0.158)** | **$ (0.158)** |
| 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 Income (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

**I. Consolidated Statements of Financial Position**

| | **December 31 2020** | December 31 2019 | Change |
|---|---|---|---|
| Total current assets | **$ 8,106,326** | $ 6,634,384 | $ 1,471,942 |
| Total non current assets | **20,732,131** | 23,542,198 | (2,810,067) |
| Total assets | **$ 28,838,457** | $ 30,176,582 | $ (1,338,125) |
| Current liabilities | **$ 15,872,330** | $ 8,202,366 | $ 7,669,964 |
| Non current liabilities | **12,286,730** | 14,402,414 | (2,115,684) |
| Total liabilities | **$ 28,159,060** | $ 22,604,780 | $ 5,554,280 |
| Shareholders' equity | **$ 679,397** | $ 7,571,802 | $ (6,892,405) |

Total current assets increased by $1,471,942. This increase in aggregate is summarized below:

- Cash increased by $1,654,444 (See the discussion in Section F - Consolidated Statement of Cash Flows);
- Restricted cash increased by $206,366 as a result of cash that was pledged to be used as security for a certain project;
- Trade and other receivables decreased by $381,418 as a result of the timing differences in the collections of trade receivables and sales;
- Inventory increased by $31,139 as a result of the anticipation of the backlog of projects to be completed in the near term;
- Prepaids and deposits decreased by $38,589 due the recognition of these balances to income;

Total non-current assets decreased by $2,810,067. This decrease in aggregate is summarized below:

- Property and equipment decreased by $1,321,019 primarily as a result of depreciation expense of $1,881,029 and disposals of $38,697 and a $155,927 foreign exchange loss on the translation of assets held by our foreign denominated subsidiaries, partially offset by non-cash capital lease additions of $632,357 and capital expenditures of $122,277;
- Goodwill and intangibles assets decreased by $871,108 largely as a result of $767,737 in amortization and a $106,582 foreign exchange loss on the translation of assets held by our foreign denominated subsidiaries. This was partially offset by $3,211 on capitalized expenditures relating to research projects (including $3,211 of capitalized labour);
- The deferred tax asset decreased by $931,988 due to a write off of deferred tax asset in the Canadian operations in the third quarter of 2020.
- On April 22, 2020, the Company issued unsecured convertible debenture with a total principal amount of $5,720,000 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, forced conversion and equity features. At December 31, 2020 the convertible debenture forced conversion feature, which is a derivative asset had a carrying value of $314,048.

Total current liabilities increased by $7,669,964. This increase in aggregate is summarized below:

- Bank operating loan decreased by $810,891 due to timing differences to fund working capital requirements in the Canadian operations;
- The US operating loans decreased by $2,186,313 mainly as a result of principal repayments of $2,631,277. This was offset by additional proceeds of $335,725 and foreign exchange loss of $109,239.
- Trade and other payables decreased by $104,243 largely as a result of the timing difference in payments;
- Current portion of long term debt decreased by $163,497 as a result of the reduction of loan repayments of $145,428 for the BDC equipment loans and $18,069 in unrealized foreign exchange gain on the revaluation of the USD denominated BDC loans.
- Current portion of lease obligations increased by $137,748 primarily as a result of addition of new leases, offset by lease payments and unrealized foreign exchange gains on the translation of foreign denominated leases;
- Current portion of the earn-out liability is $1,671,411 USD or $2,128,041 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 Adjusted 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. In 2020, this liability was reduced to $83,436 USD or

$106,231 due to the write-off of certain receivables and still outstanding as a result of restrictions imposed by the BDC due to a covenant breach at December 31, 2019 and December 31, 2020. At December 31, 2020, the first tranche liability balance is $84,850 USD or $108,031, which includes interest, accruing at 8% per annum.

  - 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 Adjusted EBITDA above $500,000 USD for the 12 month period from June 1, 2019 to May 31, 2020. In 2020, this was revised to $710,099 USD or $904,098. This balance was due on August 29, 2020 and will be paid once restrictions imposed by the BDC, as a result of a covenant breach at December 31, 2019 and December 31, 2020 has been removed. At December 31, 2020, the second tranche liability balance is $729,596 USD or $928,921, which includes interest, accruing at 8% per annum.
  - The third tranche or 12 month period post close ending on May 31, 2021, on a undiscounted basis was estimated at $634,747 USD or $808,160 and calculated based upon 65% of MOS's Adjusted EBITDA above $500,000 USD for the 12 month period from June 1, 2020 to May 31, 2021. This was further revised in 2020 to $504,827 USD or $642,746, based on company's updated forecast figures.
  - Upon acquisition of PIGCO in October 2019, the Company has 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 annually and pay 65% of the Adjusted EBITDA above $0.5 million USD to the Vendor, ending September 30, 2023. The Company initially recognized a liability for the first earn-out payment based on preceding 12- month period, estimated at $435,977 USD or $581,549. This was further revised in 2020 to $352,138 USD or $448,343, based on updated figures received on a completion of a certain contract.

- The MOS USD convertible note has a face value of $2,500,000 USD and was issued on the acquisition of MOS and matures May 31, 2021. On issuance, the convertible note was trifurcated into a conversion feature, prepayment feature and a debt host contract. At December 31, 2020, the convertible note had a carrying value of $9,539,797, which included derivative liability of $6,398,249.

Total non-current liabilities decreased by $2,115,684. This decrease in aggregate is summarized below:

- Long term debt decreased by $1,149,097 as a result of a reduction of repayments of $691,620 on USD denominated BDC Loans, a reduction of $178,080 in principal repayments on CAD denominated BDC Loans and unrealized foreign exchange loss on the revaluation of the USD denominated BDC loans of $279,397;
- Lease obligations decreased by $44,819 primarily as a result of lease payments and unrealized foreign exchange gains on the translation of foreign denominated leases, partially offset by addition of new leases. In total, between current and long term, non-cash additions were $632,357, offset by unrealized foreign exchange gains of $20,328 and principal repayments of $519,100;
- Earn-out liability decreased by $647,160, as the entire liability is now considered as current, with the payment due within the 12-month period;
- On April 22, 2020, the Company issued unsecured convertible debenture with a total principal amount of $5,720,000 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, forced conversion and equity features. At December 31, 2020, the convertible debenture host debt contract had an aggregate carrying value of $3,787,488;
- The deferred tax liability decreased by $889,876 due to lower profitability in our operations.

Shareholders' Equity decreased by $6,892,405. This increase in aggregate is summarized below:

- Share capital increased by $2,849,513 on the exercise of 5,069,481 warrants which resulted in the same number of common shares being issued. Cash proceeds of $1,681,504 were received and $585,385 was reclassified from contributed surplus relating to this exercise. Cash proceeds of

$40,000 were also received upon the exercise of 200,000 options, which resulted in issuance of same number of common shares. The related non-cash stock-based compensation of $37,066, previously charged to contributed surplus was also reclassified to share capital.

In 2020, the Company issued 2,112,500 common shares upon the exercise of convertible debenture. The principal amount of $845,000 was converted and allocated to share capital and contributed surplus (net of transaction costs) based on fair value assigned at the time of issuance. As a result, $443,277 and $226,794 was allocated to share capital and contributed surplus, respectively. Lastly, the Company issued 108,750 common shares on the exercise of broker warrants for gross proceeds of $43,500. The related fair value adjustment previously charged to equity feature of convertible debt was also reclassified to share capital in the amount of $18,781;

- Contributed surplus decreased by $307,629 as a result of the aforementioned reclassification of $622,451 to share capital on the exercise of warrants and options. In addition, $25,587 was reclassified to deficit, upon expiry of 75,000 options. The Company also reclassified $226,794 and $10,853 from the equity component of convertible debt to contributed surplus upon the exercise of convertible debenture and broker warrants, respectively as mentioned above. Lastly, non-cash stock-based compensation of $102,762 was recorded during the period, which increased the contributed surplus balance;
- Accumulated other comprehensive loss increased by $339,987 due to the unrealized foreign exchange loss on the translation of MOS, PIGCO and Cematrix USA for the year ended December 31, 2020 as the USD depreciated;
- The convertible debenture has a conversion feature, which is classified as equity with an aggregate carrying value of $453,079, net of taxes. 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, resulting in total balance of $752,829, assigned to the equity component of the convertible debenture. As mentioned above, during 2020, upon the exercise of both convertible debenture and broker warrants, the Company reclassified $66,933 and $29,634, respectively from the equity component of convertible debenture to both share capital and contributed surplus;
- The Deficit increased by $9,750,564 due to the loss to common shareholders for the year ended December 31, 2020 of $9,776,151, partially offset by $25,587 upon expiry of 75,000 options as mentioned above.

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

## J. Consolidated Statements of Cash Flows

***Comparison of the Three Months ended December 31, 2020 and December 31, 2019***

The cash position of the Company at December 31, 2020 was $2,761,284 (consisting of cash in the bank of $2,474,918 and restricted cash of $286,366) compared to a cash position of $900,474 (consisting of cash in the bank of $820,474 and restricted cash of $80,000) at December 31, 2019.

The change in cash in the fourth quarter of 2020 was a decrease of $1,047,070 as compared to a decrease of $498,090 in the same period of 2019. This change is outlined in the table on the next page:

| | Three Months Ended December 31 | | |
|---|---|---|---|
| | **2020** | 2019 | Change |
| Cash generated from (used in) operating activities | | | |
| Before non-cash working capital adjustment | **$ (490,978)** | $ (133,440) | $ (357,538) |
| Net change in non-cash working capital items | **1,610,805** | 730,419 | 880,386 |
| | **1,119,827** | 596,979 | 522,848 |
| Cash generated from (used in) investing activities | **2,539** | (3,620,595) | 3,623,134 |
| Cash generated from (used in) financing activities | **(2,127,265)** | 2,558,386 | (4,685,651) |
| Foreign exchange effect on cash | **(42,171)** | (32,860) | (9,311) |
| Decrease in cash | **(1,047,070)** | (498,090) | (548,980) |
| Cash at beginning of period | **3,808,354** | 1,398,564 | 2,409,790 |
| Cash at end of period | **$ 2,761,284** | $ 900,474 | $ 1,860,810 |

- Cash generated from operating activities increased by $522,848.
  - Cash flow before non-cash working capital adjustments decreased by $357,538 mainly as a result lower revenues and gross margins when compared to the prior year period.
  - Net change in non-cash working capital items increased by $880,386, primarily due to the level of trade receivables generated in the respective periods and the timing of their collection.
- Cash used in investing activities decreased by $3,623,134.
  - Net cash paid on acquisitions decreased by $3,365,181 due to the PIGCO acquisition which closed on October 1, 2019;
  - Property and equipment additions decreased by $242,747 mainly as a result of prior year capital expenditures incurred by PIGCO in anticipation of executing on a strong backlog of near-term projects.
  - Proceeds on the sale of equipment were $6,500 in the fourth quarter of 2020 due to the sale of a vehicle.
  - Intangible asset spending relating to product testing decreased by $8,706. Costs of $507 (including $507 of capitalized internal labour) were incurred in relation to product testing in the fourth quarter of 2020, compared to $9,285 (including $5,952 of capitalized internal labour) in the fourth quarter of 2019.
- Cash generated from financing activities decreased by $4,685,651.
  - In the fourth quarter of 2020 the Company used $2,127,265 for financing activities. This was mainly due to scheduled repayments of $618,111 on bank operating loan, $577,484 on long term debt, $492,071 on interest payments, $421,617 on US operating loan and $136,489 on lease obligations. This was partially offset by net proceeds of $118,507 from the exercise of warrants during the quarter.

- In 2019 the Company generated $2,558,386 from financing activities. A new $2,800,000 USD loan was provided by the BDC as part of the PIGCO acquisition, which had a Canadian equivalent of $3,708,040. This was offset by principal repayments of $344,099 on long term debt provided by the BDC, interest payments of $333,190, principal repayments of $298,990 on the demand operating loan, principal repayments of $94,160 on US operating loans and $79,215 on lease obligations.

***Comparison of the Year Ended December 31, 2020 and December 31, 2019***

The cash position of the Company at December 31, 2020 was $2,761,284 (consisting of cash in the bank of $2,474,918 and restricted cash of $286,366) compared to a cash position of $900,474 (consisting of cash in the bank of $820,474 and restricted cash of $80,000) at December 31, 2019.

The change in cash for the year ended December 31, 2020 was an increase of $1,860,810 as compared to an increase of $167,121 in the same period of 2019. This change is outlined in the table below:

| | Year Ended December 31 | | |
|---|---|---|---|
| | **2020** | 2019 | Change |
| Cash generated from operating activities | | | |
| Before non-cash working capital adjustment | **$ 1,524,601** | $ 1,180,758 | $ 343,843 |
| Net change in non-cash working capital items | **136,515** | (302,318) | 438,833 |
| | **1,661,116** | 878,440 | 782,676 |
| Cash used in investing activities | **(75,994)** | (4,036,492) | 3,960,498 |
| Cash generated from financing activities | **288,696** | 3,363,273 | (3,074,577) |
| Foreign exchange effect on cash | **(13,008)** | (38,100) | 25,092 |
| Increase in cash | **1,860,810** | 167,121 | 1,693,689 |
| Cash at beginning of year | **900,474** | 733,353 | 167,121 |
| Cash at end of year | **$ 2,761,284** | $ 900,474 | $ 1,860,810 |

- Cash generated from operating activities increased by $782,676.
  - Cash flow before non-cash working capital adjustments increased by $343,843 mainly as a result higher revenues when compared to the prior year period. In addition, there was a higher proportion of non-cash costs in the current period as compared to prior year.
  - Net change in non-cash working capital items was a positive $438,833 primarily due to the level of trade receivables generated in the respective periods and the timing of their collection.
- Cash used in investing activities decreased by $3,960,498.
  - Net cash paid on acquisitions decreased by $3,365,181 due to the PIGCO acquisition which closed on October 1, 2019;
  - Property and equipment additions decreased by $540,898 in the absence of an upgrade to a wet mix unit in 2019 and capital expenditures incurred by PIGCO in the prior year;
  - Proceeds on the sale of equipment were $49,494 in 2020 compared to $41,000 in 2019;
  - Intangible asset spending relating to product testing decreased by $45,925. Expenditures of $3,211 (including $3,211 of capitalized internal labour) were incurred in 2020 compared to $49,136 (including $15,731 of capitalized internal labour) in 2019.
- Cash generated from financing activities decreased by $3,074,577.
  - In 2020 the Company generated $288,696 from financing activities. The Company received net proceeds of $4,835,607 on a new $5,500,000 Convertible Debenture,

$1,765,004 from the exercise of warrants during 2020 and $335,725 on a new $250,000 USD operating loan. This was offset by repayments of $2,631,277 on its existing US operating loan, interest payments of $1,457,724, scheduled repayments of $1,228,648 on long term debt, $810,891 on its operating loans and $519,100 on lease obligations.

- In 2019 the Company received $3,363,273 from financing activities. The following sources of financing were received by the Company: A new $2,800,000 USD loan from the BDC which had a Canadian equivalent of $3,708,040 used to finance the acquisition of PIGCO, a private placement of 11,500,000 units at $0.20 which resulted in net proceeds of $2,141,800 and a drawn down on a pre-existing equipment loan provided by the BDC for $319,445. This was offset by interest payments of $987,362, principal repayments of $688,107 on long term debt, a payment of $534,436 on the earn-out Liability, principal repayments of $265,184 on the demand operating loan, $236,763 on lease obligations and principal repayments of $94,160 on the US operating loan.

**K. 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, $598,936 of the bank operating loan was available at December 31, 2020 with $129,368 being drawn.

The bank operating loan bears interest at 4.45% and is set at 2.0% above the CWB prime lending rate.

The bank operating loan has four financial covenants that must be maintained on a consolidated basis (refer to Appendix C for detailed calculations):

- 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.

- 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.

At December 31, 2020, Cematrix (Canada) Inc. was in compliance with the consolidated debt to tangible net worth and current ratio covenants; however, it was in breach of cash flow coverage ratio. The bank has provided a general tolerance for this covenant breach up to and including the period ended December 31, 2020. It is important to note that the convertible note that became current in the second 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.

In December 2020, the Company entered into an agreement with the bank; whereby the Bank provided a letter of credit up to a maximum amount of $206,366 to be used as security for a certain project. As a result, the Company was required to place this amount as a pledged bank balance, essentially, restricting the use of this cash amount until the project is completed.

The BDC Financing loan 5 and loan 6 have a consolidated fixed charge coverage ratio financial covenant which is tested annually. At December 31, 2020 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. As a result of being offside on this covenant, the BDC has postponed the payment of earn-out to MOS and this is expected to remain in place until the covenant is back in good standing.

The Company, through its wholly owned subsidiary PIGCO, had a $430,000 USD loan. The loan was repayable in 12 equal monthly payments starting November 1, 2019 and was fully repaid November 2020.

The Company, through its wholly owned subsidiary Cematrix (USA) Inc., had 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 with interest of 9% per annum starting January 1, 2020, payable monthly. The loan was fully repaid December 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 December 31, 2020, the Company had Adjusted Net Working Capital of $2,912,318 compared to $3,196,943 at December 31, 2019.

For the year ended December 31, 2020, the Company reported positive cash flow from operations before net change in non-cash working capital items of $1,524,601 and a positive Adjusted EBITDA of $1,291,903.

Management continues to closely monitor discretionary costs.

The realization of Adjusted Net Working Capital, the availability of the CWB bank operating loan and the successful completion of the approximate $94.4 million in sales contracts, contracts in progress and new sales over the next 2 years will provide the necessary liquidity to carry the Company's operations through 2021 and 2022. In addition, the successful completion of short form prospectus raising $23 million in gross proceeds will also provide some flexibility, as the company starts to pursue further growth opportunities.

*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 27 - Capital management to the Consolidated Financial Statements, was $22,169,055 at December 31, 2020 as compared to $23,123,264 at December 31, 2019 (see Section H. Consolidated Statements of Financial Position for details).

**L. Off Balance Sheet Arrangements**

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

**M. Transactions with Related Parties**

During the year ended December 31, 2020, the Company incurred legal fees from a firm which employs one of the directors of the Company in the amount of $1,349 (2019 - $9,507) of which $nil is in trade and other payables as at December 31, 2020 (2019 - $7,890).

The remuneration of directors and other members of key management personnel during the year were as follows:

| | | **2020** | | 2019 |
|---|---|---|---|---|
| Short term and post employment benefits | **$** | 569,827 | $ | 436,229 |
| Non-cash stock based compensation | | 6,808 | | 222,979 |
| | **$** | 576,635 | $ | 659,208 |

**N. Critical Accounting Judgments, Estimates and Assumptions**

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

The key sources of these uncertainties that have a significant risk of causing material adjustment to the amounts recognized in the consolidated financial statements are discussed below:

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

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

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

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

(e) *Provision for expected credit losses*
The Company uses a single loss-rate approach to measure expected credit losses of trade and other receivables. Under this approach, the Company determines an average historical loss rate by comparing the total balance of trade and other receivables at various past dates against the amount collected and not collected. This rate is then adjusted based on management judgement to account for current economic conditions, counterparty's present financial condition and the term to maturity of the specified receivable balance. Actual credit loss may significantly differ from this estimate of provision.

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

(g) *Incremental borrowing rates for leases and lease terms*
The incremental borrowing rates are based on judgments including economic environment, term, currency, and the underlying risk inherent to the asset. The carrying balance of the right-of-use assets, lease obligations, and the resulting interest expense and depreciation expense, may differ due to changes in the market conditions and lease term. In addition, lease terms are based on assumptions regarding extension terms that allow for operational flexibility and future market conditions.

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

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

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

- The amount of new sales orders and total revenue to be generated to provide sufficient cash flow to continue to fund operations and other committed expenditures;
- The timing of generating those new sales and the timing of the related cash flow; and
- The successful completion of recent public offering raising $23 million in gross proceeds.

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

## O. Changes in Accounting Policies including Initial Adoption

***New accounting policies***

The Company adopted IFRS 3 on January 1, 2020. IFRS 3 provides clarification on the definition of a business. The amendments permit a simplified assessment to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. There was no impact on the consolidated financial statements.

The Company adopted IAS 1 and 8 on January 1, 2020. IAS 1 and 8 provide clarification on the definition of materiality and how it should be applied. The amendments also align the definition of material across International Financial Reporting Standards and other publications. There was no impact on the consolidated financial statements.

***Future accounting pronouncements***

The Company has reviewed new and revised standards and interpretations that have been approved by the IASB. There are no new standards issued but not yet effective as of January 1, 2020 that have a material impact to the Company's consolidated financial statements.

## P. 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 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***

**Non- derivative financial instruments**

The fair values of cash and cash equivalents, restricted cash, trade and other receivables, 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 secured debenture approximates its carrying value as the interest rate is a market rate for similar instruments offered to the Company for similar instruments.

At the date of issue, the fair value of the debt components of the convertible debt was estimated using the prevailing market interest rates for similar non-convertible instruments. This amount was recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The fair value of the equity feature of the convertible debt was determined at issue date by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This conversion option is recognized net of income tax effects as equity and is not subsequently re-measured.

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

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

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

Level 2 – Pricing inputs are other than quoted prices in active markets included in level 1. Prices in level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. The embedded derivatives related to the forced conversion, prepayment and conversion 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 had a balance of $4,967,904 outstanding at December 31, 2020 and the bank operating loan, which had a balance at December 31, 2020 of $129,368 are subject to floating market rates. Based on the floating rate debt outstanding as at December 31, 2020, a 1% increase/decrease in interest rates would result in a decrease/increase in net loss attributable to common shareholders of approximately $37,200.

***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, restricted cash and trade receivables. The Company's cash and cash equivalents is held with large established financial institutions. The Company manages credit risk using credit approval and monitoring practices. Management is not materially concerned about the credit quality and collectability of accounts receivables, as our customers are predominantly large in scale and of high creditworthiness, and the concentration of credit risk is limited as our largest customers change year to year depending on which projects are being completed. At December 31, 2020, the Company had $2,474,918 of cash and cash equivalents (2019 - $820,474) and $286,366 in restricted cash (2019 - $80,000).

***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 December 31, 2020 and 2019 based on contractual undiscounted payments.

| | Less than 1 year | 1 to 2 years | 2 to 6 years | Total |
|---|---|---|---|---|
| **As a December 31, 2020** | | | | |
| **Bank operating loan** | **$ 129,368** | **$ -** | **$ -** | **$ 129,368** |
| **Trade and other payables** | **2,432,724** | **-** | **-** | **2,432,724** |
| **Long-term debt** | **1,058,651** | **2,410,981** | **2,498,272** | **5,967,904** |
| **Lease obligations** | **739,994** | **1,176,995** | **477,379** | **2,394,368** |
| **Earn-out liability** | **2,128,041** | **-** | **-** | **2,128,041** |
| **Convertible debt** | **3,183,000** | **-** | **4,875,000** | **8,058,000** |
| | **$ 9,671,778** | **$ 3,587,976** | **$ 7,850,651** | **$ 21,110,405** |

| | Less than 1 year | 1 to 2 years | 2 to 6 years | Total |
|---|---|---|---|---|
| As a December 31, 2019 | | | | |
| Bank operating loan | $ 940,259 | $ - | $ - | $ 940,259 |
| US operating loan | 2,186,313 | - | - | 2,186,313 |
| Trade and other payables | 2,536,967 | - | - | 2,536,967 |
| Long-term debt | 1,222,148 | 2,541,192 | 3,517,158 | 7,280,498 |
| Lease obligations | 599,412 | 1,050,234 | 721,078 | 2,370,724 |
| Earn-out liability | 870,678 | 647,160 | - | 1,517,838 |
| Convertible debt | - | 3,247,000 | - | 3,247,000 |
| | $ 8,355,777 | $ 7,485,586 | $ 4,238,236 | $ 20,079,599 |

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

As at December 31, the following balances were denominated in USD:

| | | **2020** | | 2019 |
|---|---|---|---|---|
| Cash and cash equivalents | **$** | **924,091** | $ | 583,193 |
| Trade and other receivables | **$** | **2,219,255** | $ | 1,718,472 |
| Prepaid expenses and deposits | **$** | **96,786** | $ | 101,439 |
| Trade and other payables | **$** | **997,116** | $ | 851,655 |
| US operating loan | **$** | **-** | $ | 933,333 |
| Long term debt | **$** | **3,533,101** | $ | 4,225,000 |
| Finance lease obligations | **$** | **1,023,779** | $ | 918,177 |
| Earn-out liability | **$** | **1,671,411** | $ | 1,168,646 |
| Convertible debt | **$** | **7,492,772** | $ | 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 December 31, 2020 a 1% increase/decrease of the USD against the Canadian dollar would result in an increase/decrease in net loss of approximately $107,000.

**Q. Disclosure of Outstanding Share Data**

As at December 31, 2020 and April 14, 2021, the following is a description of the outstanding equity securities and convertible securities previously issued by the Company

| | Authorized | Outstanding as at December 31, 2020 | Outstanding as at April 14, 2021 |
|---|---|---|---|
| Voting or equity securities issued and outstanding | Unlimited Common Shares | 66,776,750 Common Shares | 113,037,832 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 4,845,000 Common Shares at an exercise price at between $0.19 - $0.59 | Stock options to acquire 4,163,334 Common Shares at an exercise prices at between $0.19 - $0.59 |
| Securities convertible or exercisable into voting or equity securities – share purchase warrants | As approved by the board | Share purchase warrants to acquire 11,545,321 Common Shares at an exercise price at between $0.30 - $0.45 | Share purchase warrants to acquire 25,587,806 Common Shares at an exercise prices at between $0.30 - $0.81 |
| Securities convertible or exercisable into voting or equity securities – units | As approved by the board | The right to acquire 991,250 units at a price of $0.40. Each unit is comprised of one common share and a half share purchase warrant to acquire common shares at $0.45 | Unit purchase warrants to acquire 3,739,068 Units to acquire 954,800 units at a prices between $0.40 and $0.65. Each unit consists of one Common Share and a half share purchase warrant to acquire one Common Share. |
| Convertible debentures convertible into voting or equity securities | As approved by the board | $2,500,000 USD convertible debenture convertible into 13,373,684 Common Shares | $2,500,000 USD convertible debenture convertible into 13,373,684 Common Shares |
| Convertible debentures convertible into voting or equity securities - units | As approved by the board | $4,875,000 convertible debenture convertible into 12,187,500 units. Each unit consists of one Common Share and a half share purchase warrant to acquire one Common Share at $0.45 | $3,729,000 convertible debenture convertible into 9,322,500 units. Each unit consists of one Common Share and a half share purchase warrant to acquire one Common Share at $0.45 |

**R. Outlook**

Management continues to be extremely positive on the outlook for the Company for 2021 and the foreseeable future. Fortunately, CEMATRIX Group of companies has been considered an essential business, so the pouring of cellular concrete throughout North America has not been interrupted, just somewhat delayed. Furthermore, during times of recession, governments tend to invest in infrastructure projects as a means to get Americans and Canadians working again and this has already been the general message from various government leaders, particularly in the United States where the current government plans to move forward with $1 trillion of replacement infrastructure spending.

The acquisitions completed in the last two years established CEMATRIX as the clear leader in its industry, which from a micro economic perspective should allow the company to increase its market share, cash flow and profitability regardless of the changes in the macro economic environment.  The company's sustainability increased substantially, evident in the positive trend line on top line revenues and significant improvements to cash flow over the past 2 years.

This trend is continuing into 2021 as the Company recently announced that it has a backlog of over $94.4 million in projects of which $13.2 million are contracted and $81.2 million which are contracts in process.

Notwithstanding these facts, the COVID-19 situation could still result in a delay of some projects. However, it is important to note that the projects are not lost, just deferred to a future date.

Subsequent to year end, the Company completed a $23 million, heavily oversubscribed financing to provide management with the means to execute its strategy beyond continued strong organic growth. This strategy will include the retiring of certain high interest debt; regional expansion, particularly in the United States where the cellular concrete market continues to experience strong growth; and the pursuit of acquisitions of other cellular concrete applicators, specialty suppliers and/or other complimentary companies provided that they add value to CEMATRIX and its shareholders.

**<u>CEMATRIX CORPORATION</u>**
**<u>www.cematrix.com</u>**

### Form 51-102F1 - Management's Discussion & Analysis
### For the Year Ending December 31, 2020

## Appendix A – Forward Looking Statements

The forward-looking statements in the MD&A for the year ending December 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 2021; sales forecasts include work which is under contract or Verbally Awarded for 2021, 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 2021 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 – Non-IFRS Measures

Throughout this MD&A certain measures are used that, while common in the construction industry, are not recognized measures under IFRS. These measures are used by management to assist in making operating decisions and assessing performance. They are presented in this MD&A to assist readers in assessing the performance of the Company. While we calculate these measures consistently from period to period, they will likely not be directly comparable to similar measures used by other companies because they do not have standardized meanings prescribed by IFRS. Please review the definitions of these measures below.

**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.

**Backlog:**
Backlog is the sum of all contracts awarded and all contracts in process.

**Adjusted Net Working Capital:**
Adjusted net working capital is calculated as net working capital adjusted for cash and cash equivalents, restricted cash, bank operating loan, US operating loan, current portion of long-term debt, current portion of lease obligations, current portion of earn-out liabilities and current portion of convertible debt.

| | Year Ended December 31 | |
|---|---|---|
| | **2020** | **2019** |
| Current Assets | **$ 8,106,326** | $ 6,634,384 |
| Current Liabilities | **15,872,330** | 8,202,366 |
| **Net working Capital** | **(7,766,004)** | (1,567,982) |
| **Adjustments** | | |
| Cash and cash equivalents | **(2,474,918)** | (820,474) |
| Restricted cash | **(286,366)** | (80,000) |
| Bank operating loan | **129,368** | 940,259 |
| US operating loan | **-** | 2,186,313 |
| Current portion of long-term debt | **1,058,651** | 1,222,148 |
| Current portion of lease obligations | **583,749** | 446,001 |
| Current portion of earn-out liabilities | **2,128,041** | 870,678 |
| Current portion of convertible debt – host debt and derivative liability | **9,539,797** | - |
| **Adjusted Net Working Capital** | **$ 2,912,318** | $ 3,196,943 |

**EBITDA**
EBITDA is calculated as net income (loss) before finance costs, depreciation and amortization and provision of deferred and current taxes.

**Adjusted EBITDA**
Adjusted EBITDA is calculated as EBITDA as defined above, adjusted for unrealized foreign exchange gains (loss), accretion costs, revaluation of derivatives, revaluation of earn-out liabilities, non-cash stock based compensation and acquisition costs.

| | Three Months Ended December 31 | |
|---|---|---|
| | **2020** | **2019** |
| Net income (loss) | **$ (6,390,381)** | $ 704,014 |
| Finance costs | **387,395** | 333,190 |
| Depreciation and amortization | **644,054** | 615,961 |
| Provision of deferred taxes | **(944,779)** | (260,137) |
| Provision of current taxes | **223,615** | 23,184 |
| EBITDA | **$ (6,080,096)** | $ 1,416,212 |
| Unrealized foreign exchange gain (loss) | **(228,018)** | (98,693) |
| Accretion costs | **143,759** | 105,780 |
| Revaluation of derivatives | **6,191,723** | (331,262) |
| Revaluation of earn-out liability | **(191,322)** | 21,788 |
| Non-cash stock based compensation | **9,608** | 54,387 |
| Acquisition costs | **-** | 27,195 |
| **Adjusted EBITDA** | **$ (154,346)** | $ 1,195,407 |

| | Year Ended December 31 | |
|---|---|---|
| | **2020** | **2019** |
| Net income (loss) | **$ (9,776,151)** | $ (253,685) |
| Finance costs | **1,550,235** | 987,362 |
| Depreciation and amortization | **2,648,766** | 1,775,683 |
| Provision of deferred taxes | **(23,529)** | (168,634) |
| Provision of current taxes | **224,519** | 113,236 |
| EBITDA | **$ (5,376,160)** | $ 2,453,962 |
| Unrealized foreign exchange gain (loss) | **(97,469)** | (259,443) |
| Accretion costs | **613,466** | 493,945 |
| Revaluation of derivatives | **6,129,654** | (138,181) |
| Revaluation of earn-out liability | **(80,350)** | (443,127) |
| Non-cash stock based compensation | **102,762** | 464,222 |
| Acquisition costs | **-** | 373,844 |
| **Adjusted EBITDA** | **$ 1,291,903** | $ 2,945,222 |

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

**Form 51-102F1 - Management's Discussion & Analysis**
**For the Year Ending December 31, 2020**

## Appendix C – Covenant Calculations

| | | As at Dec 31, 2020 |
|---|---|---|
| **CWB Covenants** | | |
| **CURRENT RATIO** | | |
| Formula: Current Assets / Adjusted Current Liabilities | | |
| Current Assets | **$** | 8,106,326 |
| Current Liabilities | | 15,872,330 |
| Less: current portion of earn-out liability | | (2,128,041) |
| Less: current portion of convertible debt | | (9,539,797) |
| Adjusted Current Liabilities | | 4,204,492 |
| **Current Ratio** | | **1.93** |
| Current ratio minimum | | 1.25 |
| Covenant Met | | |
| **DEBT TO TANGIBLE NET WORTH RATIO** | | |
| Formula: Adjusted Debt / Adjusted Shareholders Equity | | |
| Total liabilities | **$** | 28,159,060 |
| Less: earn-out liability | | (2,128,041) |
| Less: convertible debt | | (13,327,285) |
| Adjusted Total Liabilities | | 12,703,734 |
| Total shareholders' equity | | 679,397 |
| Add: convertible debt | | 13,327,285 |
| Adjusted Total Shareholders' Equity | | 14,006,682 |
| **Debt to Tangible Net Worth** | | **0.91** |
| Debt to tangible net worth maximum | | 1.75 |
| Covenant Met | | |
| **CASH FLOW COVERAGE RATIO** | | |
| Formula: EBITDA / Total Interest & Principal Repayments | | |
| Adjusted EBITDA | $ | 1,291,903 |
| Finance costs | | 1,550,235 |
| Repayment of finance lease obligations | | 519,100 |
| Repayment of long-term debt | | 1,228,648 |
| Total Interest and Principal Repayment | | 3,297,983 |
| **Cash Flow Coverage Ratio** | | **0.39** |
| Cash flow coverage ratio minimum | | 1.25 |
| Covenant Not Met (Covenant waiver provided by CWB) | | |

| | | As at Dec 31, 2020 |
|---|---|---|
| **BDC Covenant** | | |
| | | |
| **FIXED CHARGE COVERAGE RATIO** | | |
| Formula: Covenant EBITDA / Total Interest & Principal Repayments | | |
| Adjusted EBITDA | $ | 1,291,903 |
| Finance costs | | 1,550,235 |
| Repayment of finance lease obligations | | 519,100 |
| Repayment of long-term debt | | 1,228,648 |
| Total interest and principal repayment | | 3,297,983 |
| **Fixed Charge Coverage Ratio** | | **0.39** |
| Fixed charge coverage ratio minimum | | 1.10 |
| Covenant Not Met (Covenant waiver provided by BDC) | | |