Cellular Concrete Solutions

# CEMATRIX CORPORATION

## Consolidated Financial Statements

*(in Canadian dollars)*

*December 31, 2020 And 2019*

To the Shareholders:

## CEMATRIX CORPORATION

Management has responsibility for preparing the accompanying consolidated financial statements. The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards. When alternative methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgement. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects. Management has developed and maintains appropriate accounting and systems of internal control designed to provide reasonable assurance that reliable and relevant financial information is produced. In addition, programs of proper business conduct and risk management have been implemented to protect the Company's assets and operations. Policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or misuse and financial records are properly maintained to provide reliable financial information for the preparation of the consolidated financial statements.

The Board of Directors (the "Board") is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out these responsibilities principally through the Audit Committee (the "Committee"), which includes two independent directors.

The Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Company's external auditors. The Committee reviews the consolidated financial statements and the external auditors' report thereon and reports its findings to the Board for approval.

MNP LLP, an independent firm of Chartered Professional Accountants is appointed by the shareholders to audit the consolidated financial statements and to report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

April 14, 2021

*Signed "Randy Boomhour"*
**Randy Boomhour, CPA, CMA**
**Chief Financial Officer**

# Independent Auditor's Report

To the Shareholders of Cematrix Corporation:

### Opinion

We have audited the consolidated financial statements of Cematrix Corporation and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and December 31, 2019, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

### Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Elena Ruttan.

MNP LLP

Calgary, Alberta
April 14, 2021

Chartered Professional Accountants

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

| | | 2020 | | 2019 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | **$** | **2,474,918** | $ | 820,474 |
| Restricted cash | | **286,366** | | 80,000 |
| Trade and other receivables *(note 6)* | | **4,329,350** | | 4,710,768 |
| Inventory *(note 7)* | | **692,213** | | 661,074 |
| Prepaid expenses and deposits | | **323,479** | | 362,068 |
| | | **8,106,326** | | 6,634,384 |
| Non-Current Assets | | | | |
| Property and equipment *(note 8)* | | **13,143,708** | | 14,464,727 |
| Goodwill and intangibles *(note 9)* | | **7,274,375** | | 8,145,483 |
| Convertible debt – non-cash derivative asset *(note 16)* | | **314,048** | | - |
| Deferred tax asset *(note 21)* | | **-** | | 931,988 |
| | | **20,732,131** | | 23,542,198 |
| **Total Assets** | **$** | **28,838,457** | $ | 30,176,582 |
| **LIABILITIES and EQUITY** | | | | |
| Current Liabilities | | | | |
| Bank operating loan *(note 10)* | **$** | **129,368** | | 940,259 |
| US operating loan *(note 11)* | | **-** | | 2,186,313 |
| Trade and other payables *(note 12)* | | **2,432,724** | | 2,536,967 |
| Current portion of long-term debt *(note 13)* | | **1,058,651** | | 1,222,148 |
| Current portion of lease obligations *(note 14)* | | **583,749** | | 446,001 |
| Current portion of earn-out liability *(note 15)* | | **2,128,041** | | 870,678 |
| Current portion of convertible debt – host debt *(note 16)* | | **3,141,548** | | - |
| Current portion of convertible debt – non-cash derivative liability *(note 16)* | | **6,398,249** | | - |
| | | **15,872,330** | | 8,202,366 |
| Non-Current Liabilities | | | | |
| Long-term debt *(note 13)* | | **4,909,253** | | 6,058,350 |
| Lease obligations *(note 14)* | | **1,481,352** | | 1,526,171 |
| Earn-out liability *(note 15)* | | **-** | | 647,160 |
| Convertible debt – host debt *(note 16)* | | **3,787,488** | | 3,110,423 |
| Convertible debt – non-cash derivative liability *(note 16)* | | **-** | | 61,797 |
| Deferred tax liability *(note 21)* | | **2,108,637** | | 2,998,513 |
| | | **12,286,730** | | 14,402,414 |
| **Total Liabilities** | | **28,159,060** | | 22,604,780 |
| **SHAREHOLDERS' EQUITY** | | | | |
| Share capital *(note 17)* | | **13,802,219** | | 10,952,706 |
| Convertible debt – equity component *(note 16)* | | **656,262** | | - |
| Contributed surplus | | **2,637,438** | | 2,945,067 |
| Accumulated other comprehensive loss | | **(464,352)** | | (124,365) |
| Deficit | | **(15,952,170)** | | (6,201,606) |
| **Total Shareholders' Equity** | | **679,397** | | 7,571,802 |
| **Total Liabilities and Shareholders' Equity** | **$** | **28,838,457** | $ | 30,176,582 |

**Approved on behalf of the Board**

*Signed "Jeffrey Kendrick"* **Director**

*Signed "Steve Bjornson"* **Director**

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

# CEMATRIX CORPORATION

## Consolidated Statements of Loss and Comprehensive Loss

*For the years ended December 31*
*(in Canadian Dollars)*

| | | 2020 | | 2019 |
|---|---|---|---|---|
| **Revenue** *(note 28)* | $ | **26,564,140** | $ | 22,550,954 |
| **Cost of sales** *(note 18)* | | **(20,946,312)** | | (16,774,497) |
| **Gross margin** | | **5,617,828** | | 5,776,457 |
| **Operating expenses** | | | | |
| Selling, general and administrative | | **(6,565,285)** | | (5,422,349) |
| **Total operating expenses** | | **(6,565,285)** | | (5,422,349) |
| **Operating income (loss)** | | **(947,457)** | | 354,108 |
| Non-cash stock-based compensation *(note 23)* | | **(102,762)** | | (464,222) |
| Finance costs *(note 19)* | | **(1,550,235)** | | (987,362) |
| Other income *(note 20)* | | **455,800** | | 1,632,337 |
| Amortization of intangibles *(note 9)* | | **(767,737)** | | (557,463) |
| Acquisition costs *(note 5)* | | **-** | | (373,844) |
| Accretion costs *(note 19)* | | **(613,466)** | | (493,945) |
| Revaluation of earn-out liability *(note 15)* | | **80,350** | | 443,127 |
| Non-cash fair value adjustment of derivatives *(note 16)* | | **(6,129,654)** | | 138,181 |
| **Loss before income taxes** | | **(9,575,161)** | | (309,083) |
| Provision of deferred taxes *(note 21)* | | **23,529** | | 168,634 |
| Provision of current taxes *(note 21)* | | **(224,519)** | | (113,236) |
| **Loss attributable to the common shareholders** | | **(9,776,151)** | | (253,685) |
| Unrealized foreign exchange loss on translation of foreign subsidiaries | | **(339,987)** | | (451,580) |
| **Total comprehensive loss for the year** | $ | **(10,116,138)** | $ | (705,265) |
| **Loss per common share** *(note 22)* | | | | |
| Basic and diluted | $ | (0.158) | $ | (0.005) |
| **Weighted average number of common shares** *(note 22)* | | | | |
| Basic and diluted | | **62,051,858** | | 49,671,572 |

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

# CEMATRIX CORPORATION
## Consolidated Statements of Changes in Shareholders' Equity
*For the years ended December 31*
*(in Canadian Dollars)*

| | Share Capital | Contributed Surplus | Accumulated Other Comprehensive Income (Loss) | Convertible Debt | Deficit | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| **Balance at December 31, 2019** | **$ 10,952,706** | **$ 2,945,067** | **$ (124,365)** | **$ -** | **$ (6,201,606)** | **$ 7,571,802** |
| **Common shares issued *(note 17)*** | **1,765,004** | **-** | **-** | **-** | **-** | **1,765,004** |
| **Reclassification of contributed surplus to share capital (note 17)** | **622,451** | **(622,451)** | **-** | **-** | **-** | **-** |
| **Non-cash stock-based compensation *(note 23)*** | **-** | **102,762** | **-** | **-** | **-** | **102,762** |
| **Reclassification of contributed surplus to deficit *(note 23)*** | **-** | **(25,587)** | **-** | **-** | **25,587** | **-** |
| **Issuance of convertible debt (note 16)** | **-** | **-** | **-** | **752,829** | **-** | **752,829** |
| **Convertible debt conversion (note 16 and 17)** | **443,277** | **226,794** | **-** | **(66,933)** | **-** | **603,138** |
| **Exercise of broker warrants (note 16 and 17)** | **18,781** | **10,853** | **-** | **(29,634)** | **-** | **-** |
| **Net loss attributable to common shareholders** | **-** | **-** | **-** | **-** | **(9,776,151)** | **(9,776,151)** |
| **Unrealized foreign exchange loss on translation of foreign subsidiaries** | **-** | **-** | **(339,987)** | **-** | **-** | **(339,987)** |
| **Balance at December 31, 2020** | **$ 13,802,219** | **$ 2,637,438** | **$ (464,352)** | **$ 656,262** | **$ (15,952,170)** | **$ 679,397** |
| | | | | | | |
| Balance at December 31, 2018 | $ 9,140,676 | $ 1,333,448 | $ 327,215 | $ - | $ (6,055,764) | $ 4,745,575 |
| Common shares issued on business acquisition *(note 17)* | 925,470 | - | - | - | - | 925,470 |
| Non-cash stock-based compensation *(note 23)* | - | 464,222 | - | - | - | 464,222 |
| Private placement *(note 17)* | 886,560 | 1,255,240 | - | - | - | 2,141,800 |
| Reclassification of contributed surplus to deficit *(note 23)* | - | (107,843) | - | - | 107,843 | - |
| Net loss attributable to common shareholders | - | - | - | - | (253,685) | (253,685) |
| Unrealized foreign exchange loss on translation of foreign subsidiaries | - | - | (451,580) | - | - | (451,580) |
| Balance at December 31, 2019 | $ 10,952,706 | $ 2,945,067 | $ (124,365) | $ - | $ (6,201,606) | $ 7,571,802 |

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

# CEMATRIX CORPORATION
## Consolidated Statements of Cash Flows
*For the years ended December 31*
*(in Canadian Dollars*

| | | 2020 | | 2019 |
|---|---|---|---|---|
| **Cash generated from (used in):** | | | | |
| **Operating activities** | | | | |
| Net loss attributable to common shareholders | **$** | **(9,776,151)** | $ | (253,685) |
| Add (deduct) non-cash items | | | | |
| Provision of deferred taxes *(note 21)* | | **(23,529)** | | (168,634) |
| Depreciation and amortization *(notes 8 and 9)* | | **2,648,766** | | 1,775,683 |
| Finance and accretion costs *(note 19)* | | **2,163,701** | | 1,481,307 |
| Non-cash stock-based compensation *(note 23)* | | **102,762** | | 464,222 |
| (Gain) loss on sale of equipment *(note 20)* | | **(10,797)** | | 1,084 |
| Gain on business combination *(note 20)* | | **-** | | (1,278,468) |
| Unrealized foreign exchange gains *(note 20)* | | **(97,469)** | | (259,443) |
| Non-cash earn-out expense *(note 15)* | | **468,014** | | - |
| Fair value adjustment of derivatives *(note 16)* | | **6,129,654** | | (138,181) |
| Fair value adjustment of earn-out liability *(note 15)* | | **(80,350)** | | (443,127) |
| | | **1,524,601** | | 1,180,758 |
| **Net change in non-cash working capital items** *(note 24)* | | **136,515** | | (302,318) |
| **Cash generated from operating activities** | | **1,661,116** | | 878,440 |
| **Investing activities** | | | | |
| Purchase of property and equipment *(note 8)* | | **(122,277)** | | (663,175) |
| Proceeds on sale of property and equipment *(note 8)* | | **49,494** | | 41,000 |
| Purchase of intangibles *(note 9)* | | **(3,211)** | | (49,136) |
| Net cash paid on acquisition *(note 5)* | | **-** | | (3,365,181) |
| Net cash used in investing activities | | **(75,994)** | | (4,036,492) |
| **Financing activities** | | | | |
| Repayment of bank operating loan *(note 10)* | | **(810,891)** | | (265,184) |
| Proceeds from long-term debt *(note 13)* | | **-** | | 4,027,485 |
| Repayment of long-term debt *(note 13)* | | **(1,228,648)** | | (688,107) |
| Repayment of finance lease obligations *(note 14)* | | **(519,100)** | | (236,763) |
| Proceeds from convertible debt, net of costs *(note 16)* | | **4,835,607** | | - |
| Repayment of earn-out liability *(note 15)* | | **-** | | (534,436) |
| Proceeds from private placement, net of costs *(note 17)* | | **-** | | 2,141,800 |
| Interest paid | | **(1,457,724)** | | (987,362) |
| Repayment of US operating loan *(note 11)* | | **(2,631,277)** | | (94,160) |
| Proceeds from US operating loan *(note 11)* | | **335,725** | | - |
| Proceeds from exercise of options or warrants | | **1,765,004** | | - |
| **Cash generated from financing activities** | | **288,696** | | 3,363,273 |
| **Foreign exchange effect on cash** | | **(13,008)** | | (38,100) |
| **Increase in cash** | | **1,860,810** | | 167,121 |
| **Cash, beginning of year** | | **900,474** | | 733,353 |
| **Cash, end of year** | | **2,761,284** | | 900,474 |
| **Cash and cash equivalents** | | **2,474,918** | | 820,474 |
| **Restricted cash** | | **286,366** | | 80,000 |
| | **$** | **2,761,284** | $ | 900,474 |

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

## 1. Corporate information

CEMATRIX Corporation ("CEMATRIX" or the "Company") is a limited company incorporated in the province of Alberta, Canada whose common shares are publicly traded on the TSX venture exchange under the symbol "cvx.v". It is domiciled in Canada with its registered office at 9727 – 40th Street S.E., Calgary, Alberta, Canada.

Through its wholly-owned subsidiaries, Pacific International Grout Co., ("PIGCO"), MixOnSite USA, Inc. ("MOS") and CEMATRIX (Canada) Inc. and its subsidiaries CEMATRIX (USA) Inc., CEMATRIX (Calgary) Ltd. and Canadian Cellular Concrete Services Inc., ("CCCS"), the Company is a manufacturer and supplier of cellular concrete products with applications in a variety of markets. The current market focus is in the construction market for infrastructure in Western Canada and Ontario and on a selective basis in Quebec, the Northwest Territories and the United States of America (U.S.) and oil and gas construction projects in Western Canada.

The consolidated financial statements of the Company for the year ended December 31, 2020 were authorized for issue in accordance with a resolution of the Board of Directors on April 14, 2021.

## 2. Basis of preparation

***Statement of compliance***
These consolidated financial statements for the year ended December 31, 2020 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Reporting Interpretation Committee ("IFRIC").

***Basis of measurement and going concern***
These consolidated financial statements were prepared on a going concern basis under the historical cost convention except for share-based payment transactions and certain financial instruments which are measured at fair value. The Company has also reclassified certain comparative figures to conform to the financial statement presentation adopted for the current year.

***Use of estimates and judgements***
The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

***Functional and presentation currency***
These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. The functional currency of CEMATRIX (USA) Inc., MOS and PIGCO is U.S. dollars ("USD").

## 3. Significant accounting judgements, estimates and assumptions

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

***COVID-19 Pandemic***

In March 2020, the World Health Organization declared COVID-19, which has the potential to cause severe respiratory illness ("COVID-19"), a global pandemic. With the majority of governments across the jurisdictions in which the company operates declaring a state of emergency in response to the COVID-19 pandemic, the company's 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.

As an evolving risk, the duration and full financial effect of the COVID-19 pandemic is unknown at this time, as is the efficacy of government and central bank interventions. Any estimate of the length and severity of these developments is therefore subject to significant uncertainty, and accordingly estimates of the extent to which the COVID-19 pandemic may materially and adversely affect the Company's operations, financial results and condition in future periods are also subject to significant uncertainty. Therefore, uncertainty about judgments, estimates and assumptions made by management during the preparation of the Company's consolidated financial statements related to potential impacts of the COVID-19 outbreak on revenue, expenses, assets, liabilities, and note disclosures could result in a material adjustment to the carrying value of the asset or liability affected. The major sources of estimation uncertainty and judgment affecting the Company are discussed in greater detail below:

***A) Impairment of non-financial assets***

The Company assesses impairment on its non-financial assets when it has determined that a potential indicator of impairment exists, or annually in the case of goodwill and indefinite life intangibles. The assessment of the existence of impairment indicators is based on various internal and external factors and involves management's judgment. When an impairment test is performed on an asset or a cash generating unit ("CGU"), management estimates the recoverable amount of the asset or CGU based on its fair value less costs of disposal ("FVLCD") or its value in use ("VIU"). These estimates are based on valuation models requiring the use of a number of assumptions such as forecasts of future cash flows, gross margin, pre-tax discount rate (weighted average cost of capital or "WACC") and perpetual growth rate. These assumptions have a significant impact on the results of impairment tests and on the impairment charge (if required) recorded in the consolidated statement of loss and comprehensive loss. A description of key assumptions used in the impairment tests and a sensitivity analysis of recoverable amounts are presented in note 9.

***B) Non-cash stock based compensation***

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

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

### *C) Taxes*

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

### *D) Fair value of financial instruments*

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

### *E) 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 and intangible assets*

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

### *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, where the Cematrix USA CGU includes both MOS and PIGCO.

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

### *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 has 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 flows to continue to fund operations and other committed expenditures;
- The timing of generating those new sales and the timing of the related cash flows; 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.

## 4. Significant accounting policies

The significant accounting policies of the Company are outlined on the following pages:

### *A) Basis of consolidation*

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, CEMATRIX (Canada) Inc. and its subsidiaries: CEMATRIX (Calgary) Ltd. (100% owned), CEMATRIX (USA) Inc. (99.99% owned), MOS (100% owned), PIGCO (100% owned) and Canadian Cellular Concrete Services Inc. (100% owned). Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same period as the parent company, using consistent accounting policies. The Company has consolidated the assets, liabilities, revenues and expenses of its subsidiaries after the elimination of inter-company transactions and balances.

### *B) Cash and cash equivalents*

Cash and cash equivalents include short-term investments with original maturities of three months or less which are considered to be cash equivalents and are recorded at cost, which approximates fair market value.

### *C) Restricted cash*

At December 31, 2020 and 2019, the Company has restricted cash of $286,366 and $80,000, respectively. The restricted cash balance of $206,366 is being used to collateralize letter of credit issued by the Company as a security deposit for a certain project. The remaining $80,000 restricted cash balance is being used to collateralize certain credit card balances issued by a bank.

**4. Significant accounting policies** *(continued)*

***D) Inventory***

Inventory is valued at the lower of cost and net realizable value. Cost is determined by the weighted average method. Net realizable value is the estimated selling price in the ordinary course of business. Inventory consists mainly of foaming agent used in the production of the Company's product, cellular concrete. It also includes marketing materials. Inventory is reviewed on a regular basis to ensure the carrying value does not exceed net realizable value. If the carrying value exceeds net realizable value, a write-down is recognized immediately. The write-down may be reversed in a subsequent period if the circumstances which caused it no longer exist.

***E) Property and equipment***

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. When significant parts of property and equipment are required to be replaced in intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciation, respectively. All other repair and maintenance costs are recognized in the consolidated statement of loss and comprehensive loss as incurred.

Depreciation is calculated on a straight-line basis to recognize the cost less estimated residual value over the estimated useful life of the assets as follows:

| | |
|---|---|
| Equipment and cellular material processors | 3-20 years |
| Vehicles | 7-15 years |
| Computer equipment and software | 5-10 years |
| Furniture and fixtures | 10 years |

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

***F) Intangible assets***

Intangible assets represent foaming agent technology, process licenses, trademarks and product testing costs. Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and any expenditure is reflected in the consolidated statement of loss and comprehensive loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of loss and comprehensive loss when the asset is derecognized.

## 4. Significant accounting policies *(continued)*

### *G) Impairment of non-financial assets*

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU's, or otherwise they are allocated to the smallest group of CGU's for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives, goodwill and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of FVLCD and VIU. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of loss and comprehensive loss.

Where an impairment loss subsequently reverses for assets with a finite useful life, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years.
A reversal of an impairment loss is recognized immediately in consolidated statement of loss and comprehensive loss.

An impairment loss on intangible assets with an indefinite life and on any goodwill is not reversed.

### *H) Revenue from Contracts with Customers*

IFRS 15 sets out a five-step model for revenue recognition. The core principle is that revenue should be recognized to depict the transfer of goods and services to customers in an amount that reflects the consideration that the Company expects to be entitled for those goods and services.

The Company principally generates revenue from the onsite production and placement of cellular concrete (the "Product") pursuant to contractual arrangements with its customers. This revenue is recognized when control or title of the Product is transferred from the Company and collection is reasonably assured in accordance with specified contract terms. All revenue is generally earned at a point in time and is based on the consideration that the Company expects to receive for the transfer of the Product to the customer.

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

**4. Significant accounting policies** *(continued)*

***H) Revenue from Contracts with Customers (continued)***

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

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

***I) Non-cash stock-based compensation***

The Company operates an equity-settled non-cash stock-based compensation plan under which it receives services from employees and consultants as consideration for equity instruments of the Company.

For equity-settled plans, expense is based on the fair value of the awards granted, net of expected forfeitures, on the date of grant. Fair values are determined using observable share prices and/or pricing models such as the Black-Scholes option-pricing model. The expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are satisfied with a corresponding credit to contributed surplus. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period.

For grants that expire or are forfeited without being exercised, the Company records a reclassification to deficit of the non-cash stock-based compensation previously recorded to contributed surplus. For grants that are exercised, the Company records a reclassification to share capital of the non-cash stock-based compensation previously recorded to contributed surplus.

At the end of each reporting period, the Company re-assesses its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions in the consolidated statement of loss and comprehensive loss.

***J) Loss per common share***

Basic loss per common share is calculated by dividing the net loss attributable to common shareholders (the numerator) by the weighted average number of common shares outstanding (the denominator) during the year. The denominator (number of units) is calculated by adjusting the shares issued at the beginning of the year by the number of shares bought back or issued during the year, multiplied by a time-weighting factor.

Diluted loss per common share is calculated by adjusting the denominator for the effects of dilutive share purchase options and any other potential dilutive items. The effects of anti-dilutive potential units are ignored in calculating diluted income per common share. All share purchase options are considered anti-dilutive when the Company is in a loss position or the average exercise price of the options exceeds the average trading price of the Company's common shares.

## 4. Significant accounting policies *(continued)*

### *K) Government grants and assistance*

Government grants are recognized when there is reasonable assurance that the precedent conditions are met and that the grants will be received. The proceeds from the government grants are recorded as other income in profit or loss and are recognized over the same period on a systematic basis, in which the related expenses for which the grant was initially intended are being recognized.

### *L) Taxes*

Tax expenses comprise current and deferred tax. Taxes are recognized in the consolidated statement of loss and comprehensive loss except to the extent it relates to items recognized directly in equity.

**Current tax**

Current tax expense is based on the results for the year as adjusted for items that are not taxable or not deductible and recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

**Deferred tax**

Deferred taxes are the taxes expected to be payable or recoverable on differences between the carrying amounts of assets in the consolidated statement of financial position and their corresponding tax bases used in the computation of taxable profit and are accounted for using the liability method.

Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax bases. Deferred taxes are measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

### *M) Compound financial instruments*

When a contract contains an embedded derivative, the economic and risk characteristics of both the embedded derivative and host contract are analyzed to understand whether or not they are closely related and to decide whether the embedded derivative should be accounted for separately from the host contract.

The embedded features in the financial instrument issued by the Corporation are identified at inception. Each feature is evaluated separately and classified either as part of the host liability, as a separate embedded liability or as an equity instrument in accordance with the substance of the contractual arrangement.

### *N) Share capital*

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

**4. Significant accounting policies** *(continued)*

***N) Share capital (continued)***

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

***O) Foreign currency translation***

Foreign currency denominated assets and liabilities are translated at the exchange rate prevailing at the date of the consolidated statement of financial position for monetary items. Revenues and expenses are translated using exchange rates prevailing at the dates of the transaction. Any exchange gain or loss that arises on translation is included in the consolidated statement of loss and comprehensive loss for the year.

The Company translates the accounts of PIGCO, MOS, and CEMATRIX (USA) Inc. into Canadian dollars using the closing rate of exchange for both monetary and non-monetary assets and liabilities and the average exchange rate for revenues and expenses. The Company records the exchange differences on the translation of net assets whose functional currency is the USD in unrealized foreign exchange gain (loss) on translation of foreign subsidiary in other comprehensive income (loss).

***P) Borrowing costs***

Borrowing costs are recognized as an expense in the period in which they are incurred unless they are incurred on a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time (greater than one year) to get ready for its intended use. Interest costs on borrowings incurred to finance a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

***Q) Financial Instruments***

Classification

The Company classifies its financial assets and financial liabilities in the following measurement categories: (i) those to be measured subsequently at fair value through profit or loss (“FVTPL”); (ii) those to be measured subsequently at fair value through other comprehensive income (“FVOCI”); and (iii) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (“SPPI”). Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains or losses are either recorded in net loss or other comprehensive income (loss).

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

## 4. Significant accounting policies *(continued)*

### *Q) Financial Instruments (continued)*

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit or loss or other comprehensive income (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in other comprehensive income.

All financial instruments are initially measured at fair value. The following table summarizes the subsequent measurement for the Company's financial assets and liabilities under IFRS 9:

| Financial instrument | Subsequent measurement |
|---|---|
| Financial asset: | |
| Cash and cash equivalents | FVTPL |
| Restricted cash | FVTPL |
| Trade and other receivables | Amortized cost |
| Convertible debt – derivative asset | FVTPL |
| | |
| Financial liabilities: | |
| Bank operating loan | Amortized cost |
| US operating loan | Amortized cost |
| Trade and other payables | Amortized cost |
| Long term debt | Amortized cost |
| Earn-out liability | FVTPL |
| Convertible debt – host debt | Amortized cost |
| Convertible debt – forced conversion and derivative features | FVTPL |

Impairment

When assessing impairment of financial assets measured at amortized cost, the Company applies the simplified approach to provide for expected losses prescribed by IFRS 9, which requires the use of the lifetime expected credit losses. In estimating the lifetime expected loss provision, the Company considers historical internal and industry default rates as well as credit ratings of major customers.

Financials assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred.

Financial liabilities are derecognized when the obligation is discharged, cancelled or expired.

### *R) Business acquisitions*

The Company uses the acquisition method of accounting for business acquisitions. Acquired assets and assumed liabilities are recognized at their fair values at the acquisition date. For those acquisitions that include a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and subsequent changes in such fair value amounts are recognized in net loss.

Acquisition-related costs are recognized in net loss as incurred.

## 4. Significant accounting policies *(continued)*

### *R) Business acquisitions(continued)*

The Company uses the acquisition method of accounting for business acquisitions. Acquired assets and assumed liabilities are recognized at their fair values at the acquisition date. For those acquisitions that include a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and subsequent changes in such fair value amounts are recognized in net loss.

Acquisition-related costs are recognized in net loss as incurred.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the fair value of consideration paid over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If the net amounts assigned to the assets acquired and liabilities assumed exceed the consideration paid, then the Company is required to reassess the value of both the consideration paid and net assets acquired and any excess remaining after this reassessment is recognized immediately in net loss. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

If the initial accounting for a business acquisition is incomplete by the end of the reporting period in which the acquisition occurs, the Company will report provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances at the acquisition date that, if known, would have affected the amounts recognized at that date.

The measurement period is the period from the date of acquisition to the date the Company obtains complete information about facts and circumstances as of the acquisition date, to a maximum of one year.

### *S) Leases*

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

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

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

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

*(in Canadian dollars)*

## 4. Significant accounting policies *(continued)*

### *S) Leases (continued)*

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

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

### *T) 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.

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.

## 5. Business acquisition

On October 1, 2019, the Company acquired all of the issued and outstanding shares of PIGCO. PICGO is incorporated under the laws of Washington state, with a head office in Bellingham, Washington, U.S. PIGCO is a contractor in the same business as CEMATRIX specializing in higher density tunnel grouting and nuclear abandonments, offering complete installation services including technical mix design support and development for a wide variety of construction applications in the U.S. The acquisition provides the Company a platform for long-term growth opportunities and diversification into new markets. The transaction was accounted for as a business combination.

The purchase price for all the issued and outstanding shares of PIGCO was $5,964,432 and was comprised of the following:

| | | |
|---|---|---|
| Cash | $ | 3,708,040 |
| Common shares *(note 17)* | | 925,470 |
| US operating loans *(note 11)* | | 1,330,922 |
| | $ | 5,964,432 |

The net cash payment of $3,365,181 was financed with a loan from the from the Business Development Bank of Canada (note 13).

The common shares were valued at $0.28, which was the trading price on the date of acquisition.

*(in Canadian dollars)*

## 5. Business acquisition *(continued)*

Purchase price allocation

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

| | | |
|---|---|---|
| Cash | $ | 342,859 |
| Accounts receivable | | 661,255 |
| Prepaid expenses | | 6,918 |
| Property and equipment *(Note 8)* | | 8,613,415 |
| Intangible assets *(Note 9)* | | 1,705,641 |
| Trade and other payables | | (919,481) |
| Finance lease obligation *(Note 14)* | | (662,053) |
| Deferred income tax liability | | (2,505,654) |
| Gain on acquisition | | (1,278,468) |
| | $ | 5,964,432 |

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

Acquisition-related costs, primarily for advisory services, were $373,844 and have been recognized in the consolidated statement of loss.

Post combination compensation *(Note 15)*

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 EBITDA above $500,000 USD to the Vendor, ending September 30, 2023.

## 6. Trade and other receivables

Trade and other receivables consist of the following components as at December 31, 2020 and 2019:

| | | **2020** | | 2019 |
|---|---|---|---|---|
| Trade receivables | **$** | **3,760,460** | $ | 3,980,187 |
| Holdbacks | | **396,767** | | 650,720 |
| Other receivables | | **236,833** | | 79,861 |
| Allowance for doubtful accounts | | **(64,710)** | | - |
| | **$** | **4,329,350** | $ | 4,710,768 |

Trade receivables and holdbacks are unsecured and non-interest bearing and are generally on 30-day terms subject to standard ten percent construction holdbacks on most of its sales over $100,000. Holdbacks are generally collectible forty-five days after completion of the work performed by the Company, however, holdbacks can be outstanding much longer, if the holdback release is tied to the completion of the entire project by the general contractor. The Company is normally a subcontractor to the general contractor and only completes a portion of the total work to be completed by the general contractor and accordingly certain holdbacks can be outstanding for up to a year or more.

*(in Canadian dollars)*

**6. Trade and other receivables** *(continued)*

The aging of the trade receivables were as follows as at December 31, 2020 and 2019:

| | | **2020** | | 2019 |
|---|---|---|---|---|
| 1-30 days | **$** | **1,749,608** | $ | 844,141 |
| 31-60 days | | **442,994** | | 1,355,623 |
| 61-90 days | | **607,823** | | 1,019,903 |
| Greater than 90 days | | **960,035** | | 760,520 |
| | **$** | **3,760,460** | $ | 3,980,187 |

In determining the recoverable amount of a trade, holdbacks and other receivables, the Company performs a risk analysis considering the type and age of the outstanding receivable and the credit worthiness of the counterparties. The Company considers trade accounts receivable past due if they are greater than 60 days, except for holdbacks that have been invoiced and are part of trade receivables but are not collectible until the completion of the entire project as discussed above. The expected credit loss calculated as at December 31, 2020 was $64,710 (2019 – nil).

**7. Inventory**

Inventory consists of the following components as at December 31, 2020 and 2019:

| | | **2020** | | 2019 |
|---|---|---|---|---|
| Raw materials (principally foaming agent) | **$** | **692,213** | $ | 651,642 |
| Spare parts and marketing material | | **-** | | 9,432 |
| | **$** | **692,213** | $ | 661,074 |

Inventory expensed as part of cost of sales was $1,246,625 and $488,980 for the years ended December 31, 2020 and 2019, respectively. Spare parts and marketing material were written down to nil in 2020.

*(in Canadian dollars)*

## 8. Property and equipment

The movement in the net carrying amounts for each class of property and equipment for the years ending December 31, 2020 and 2019 is outlined below:

| | Equipment and cellular material processor | Vehicles | Computer equipment and software | Furniture and fixtures | Subtotal owned | Right of Use Asset | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| **At December 31, 2019** | **15,748,562** | **812,169** | **187,465** | **91,735** | **16,839,931** | **2,467,887** | **19,307,818** |
| **Additions** | **98,204** | **-** | **14,220** | **9,853** | **122,277** | **632,357** | **754,634** |
| **Dispositions** | **(23,343)** | **(72,883)** | **-** | **-** | **(96,226)** | **(44,775)** | **(141,001)** |
| **Exchange difference** | **(199,698)** | **(14,255)** | **(1,452)** | **(829)** | **(216,234)** | **(36,733)** | **(252,967)** |
| **At December 31, 2020** | **15,623,725** | **725,031** | **200,233** | **100,759** | **16,649,748** | **3,018,736** | **19,668,484** |
| **Accumulated depreciation** | | | | | | | |
| **At December 31, 2019** | **(3,978,976)** | **(287,740)** | **(126,193)** | **(51,457)** | **(4,444,366)** | **(398,725)** | **(4,843,091)** |
| **Depreciation** | **(1,236,194)** | **(69,103)** | **(24,424)** | **(11,040)** | **(1,340,761)** | **(540,268)** | **(1,881,029)** |
| **Dispositions** | **1,167** | **65,877** | **-** | **-** | **67,044** | **35,260** | **102,304** |
| **Exchange difference** | **71,680** | **5,283** | **855** | **36** | **77,854** | **19,186** | **97,040** |
| **At December 31, 2020** | **(5,142,323)** | **(285,683)** | **(149,762)** | **(62,461)** | **(5,640,229)** | **(884,547)** | **(6,524,776)** |
| **Net book value** | | | | | | | |
| **At December 31, 2020** | **10,841,402** | **439,348** | **50,471** | **38,298** | **11,009,519** | **2,134,189** | **13,143,708** |
| Cost | | | | | | | |
| At December 31, 2018 | 7,701,663 | 729,892 | 161,267 | 61,913 | 8,654,735 | 507,152 | 9,161,887 |
| Acquisition *(note 5)* | 7,721,501 | 188,187 | 2,686 | 1,569 | 7,913,943 | 699,472 | 8,613,415 |
| Transition to IFRS 16 | - | - | - | - | - | 643,632 | 643,632 |
| Additions | 608,610 | - | 25,357 | 29,208 | 663,175 | 635,198 | 1,298,373 |
| Dispositions | (22,400) | (72,465) | - | - | (94,865) | - | (94,865) |
| Exchange difference | (260,812) | (33,445) | (1,845) | (955) | (297,057) | (17,567) | (314,624) |
| At December 31, 2019 | 15,748,562 | 812,169 | 187,465 | 91,735 | 16,839,931 | 2,467,887 | 19,307,818 |
| Accumulated depreciation | | | | | | | |
| At December 31, 2018 | (3,190,866) | (216,025) | (101,037) | (47,960) | (3,555,888) | (154,069) | (3,709,957) |
| Depreciation | (830,886) | (110,018) | (25,695) | (3,538) | (970,137) | (248,083) | (1,218,220) |
| Dispositions | 20,160 | 32,621 | - | - | 52,781 | - | 52,781 |
| Exchange difference | 22,616 | 5,682 | 539 | 41 | 28,878 | 3,427 | 32,305 |
| At December 31, 2019 | (3,978,976) | (287,740) | (126,193) | (51,457) | (4,444,366) | (398,725) | (4,843,091) |
| Net book value | | | | | | | |
| At December 31, 2019 | 11,769,586 | 524,429 | 61,272 | 40,278 | 12,395,565 | 2,069,162 | 14,464,727 |

*(in Canadian dollars)*

## 9. Goodwill and intangible assets

Goodwill and intangibles consist of the following components as at December 2020 and 2019:

| | Foaming agent technology | Process licenses | Trademarks | Product testing costs | Sales backlog | Goodwill | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| **At December 31, 2019** | **315,000** | **141,110** | **9,006** | **298,324** | **2,313,106** | **5,895,110** | **8,971,656** |
| **Additions** | **-** | **-** | **-** | **3,211** | **-** | **-** | **3,211** |
| **Exchange difference** | **-** | **-** | **-** | **-** | **(45,593)** | **(116,196)** | **(161,789)** |
| **At December 31, 2020** | **315,000** | **141,110** | **9,006** | **301,535** | **2,267,513** | **5,778,914** | **8,813,078** |
| **Accumulated amortization** | | | | | | | |
| **At December 31, 2019** | **-** | **-** | **-** | **-** | **(826,173)** | **-** | **(826,173)** |
| **Amortization** | **-** | **-** | **-** | **-** | **(767,737)** | **-** | **(767,737)** |
| **Exchange difference** | **-** | **-** | **-** | **-** | **55,207** | **-** | **55,207** |
| **At December 31, 2020** | **-** | **-** | **-** | **-** | **(1,538,703)** | **-** | **(1,538,703)** |
| **Net book value** | | | | | | | |
| **At December 31, 2020** | **315,000** | **141,110** | **9,006** | **301,535** | **728,810** | **5,778,914** | **7,274,375** |
| Cost | | | | | | | |
| At December 31, 2018 | 315,000 | 141,110 | 9,006 | 249,188 | 672,551 | 6,191,953 | 7,578,808 |
| Acquisition *(note 5)* | - | - | - | - | 1,705,641 | - | 1,705,641 |
| Additions | - | - | - | 49,136 | - | - | 49,136 |
| Exchange difference | - | - | - | - | (65,086) | (296,843) | (361,929) |
| At December 31, 2019 | 315,000 | 141,110 | 9,006 | 298,324 | 2,313,106 | 5,895,110 | 8,971,656 |
| Accumulated amortization | | | | | | | |
| At December 31, 2018 | - | - | - | - | (294,241) | - | (294,241) |
| Amortization | - | - | - | - | (557,463) | | (557,463) |
| Exchange difference | - | - | - | - | 25,531 | - | 25,531 |
| At December 31, 2019 | - | - | - | - | (826,173) | - | (826,173) |
| Net book value | | | | | | | |
| At December 31, 2019 | 315,000 | 141,110 | 9,006 | 298,324 | 1,486,933 | 5,895,110 | 8,145,483 |

The indefinite life intangibles have been allocated to the Cematrix Canada and Cematrix USA CGU's. Product testing costs relate to third party testing and verification of certain qualities of the Company's products. The product testing costs are not completed and therefore are not available for use. At the end of each testing program, the specific product testing costs related to the particular program will be amortized over future years based on their estimated useful life. During the years ended December 31, 2020 and 2019 the Company incurred expenditures of $3,211 and $49,136, respectively including capitalized labour costs of approximately $3,211 and $15,731.

The sales backlog and goodwill were the result of the acquisition of MOS and PIGCO. The sales backlog acquired by the Company in the MOS acquisition is fully amortized, while the backlog acquired in PIGCO acquisition is being amortized over 27 months on a straight-line basis, which is consistent with the time period the Company expects to complete the aforementioned contracts.

*(in Canadian dollars)*

**9. Goodwill and intangible assets** *(continued)*

For the purposes of impairment testing goodwill has been allocated to the Cematrix USA CGU.

The recoverable amounts have been determined based on a VIU calculation using cash flow projections from financial forecasts approved by senior management covering a five-year discounted future cash flow model plus a terminal value. There is a significant amount of uncertainty with respect to estimating the recoverable amount given the necessity of making key economic projections related to the following key assumptions: future cash flows, industry growth opportunities, including general economic risk assumptions, gross margins, terminal value and discount rate.

The key assumptions used, by CGU, in the calculation of recoverable amounts are gross margin and the discount rates:

| | **Cematrix USA** | | **Cematrix Canada** | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Gross Margin | **28%** | 27% | **26%** | 30% |
| Pre-tax discount rate | **18%** | 18% | **18%** | 18% |

Near term (1 year) sales growth assumptions (73%) are based on contracted and verbally awarded projects (including backlogs), as well as probability adjusted forecasts (range of 10% to 90%) for projects on which the Company has placed or will place bids, where the probabilities applied are based on management's assessment of a particular project based on historical experience and the stage that the project is in the sales cycle. Management has also given consideration to its relationships with customers, the competitive landscape and changes in its business strategy. With regard to gross margins, consideration is given to historical operating margins in the end markets where prospective work opportunities are most significant and changes in the Company's business. A 2% change in gross margin in isolation would not result in an impairment charge.

The terminal value was calculated using a discount rate of 18% and annual growth of 2.5% in the terminal year.

Pre-tax discount rates used reflect management's assessment of the risks of the CGU or group of CGU's and its past experience in raising capital. The Company's pre-tax discount rate has been applied based on the WACC and reflects the current market assessments of the time value of money and the risks specific to the CGU. Furthermore, suitable sensitivity tests are also applied in conjunction with cash flow forecasts for the CGU in question. A change in the absolute discount rate of 2% in isolation would not result in an impairment charge.

There was no impairment recorded as at December 31, 2020 and 2019.

**10. Bank operating loan**

In April 2016, CEMATRIX's wholly owned subsidiary, CEMATRIX (Canada) Inc. entered into a financing arrangement with the Canadian Western Bank (the "Bank") which provides a $1,500,000 demand operating loan (the "Loan"). The Loan bears interest at an amount equal to 2% above the Bank's prime lending rate, which is currently at 2.45% and is secured by a general security agreement providing a first secured interest on the receivables and inventory of CEMATRIX (Canada) Inc. The Loan is further guaranteed by the Company with the Company granting a general security agreement providing a first secured interest on all present and after acquired property of the Company.

*(in Canadian dollars)*

## 10. Bank operating loan *(continued)*

Under the Loan, the Bank will advance up to $1,500,000 based on 75% of trade receivables less than ninety days outstanding at the end of each month and 50% of inventories (up to a maximum $250,000). Based on these restrictions the actual Loan availability at December 31, 2020 was $598,936 of which $129,368 was outstanding ($940,259 – December 31, 2019).

The Loan contains covenants in regard to consolidated cash flow coverage ratio, consolidated debt to tangible net worth ratio, and consolidated current ratio. At December 31, 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.

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.

## 11. US Operating loan

US Operating loans consist of the following components as at December 31, 2020 and 2019:

| | **Principal (USD)** | **Interest rate** | **Maturity** | **2020** | 2019 |
|---|---|---|---|---|---|
| Loan 1 | $750,000 | Fixed | July 31, 2020 | **$ -** | $ 974,100 |
| Loan 2 | $430,000 | Nil | November 1, 2020 | **-** | 465,403 |
| Loan 3 | $575,000 | Fixed | December 1, 2020 | **-** | 746,810 |
| Loan 4 | $250,000 | Fixed | September 1, 2020 | **-** | - |
| | | | | **$ -** | $ 2,186,313 |

| | **2020** | 2019 |
|---|---|---|
| US operating loan, beginning of the year | **$ 2,186,313** | $ 1,023,150 |
| US operating loans assumed on business acquisitions | **-** | 1,330,922 |
| Proceeds of US operating loan | **335,725** | - |
| Repayment of US operating loans | **(2,631,277)** | (94,160) |
| Effect of unrealized foreign exchange loss (gain) on translation | **109,239** | (73,599) |
| US operating loan, end of the year | **$ -** | $ 2,186,313 |

Loan 1 - The loan was due on May 31, 2019 and interest was set at 2.0% above JPMorgan Chase Bank's prime lending rate and payable quarterly. Subsequently, the loan maturity was extended to July 31, 2020 with interest set at 14.0% per annum payable monthly. The loan was fully repaid during the second quarter of 2020.

Loan 2 - The loan did not bear interest and was repayable in 12 equal monthly principal repayments starting on November 1, 2019. The loan was fully repaid in November 2020.

*(in Canadian dollars)*

**11. US Operating loan** *(continued)*

Loan 3 - 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 in December 2020.

Loan 4 – In February 2020, the Company obtained a short-term loan with an unrelated party. Interest was set at 14% per annum, payable monthly, starting April 1, 2020 and repayable before September 1, 2020. The loan was fully repaid during the second quarter of 2020.

There were no financial covenants in relation to the above operating loans.

**12. Trade and other payables**

Trade and other payables consist of the following components as at December 31, 2020 and 2019:

| | | **2020** | | 2019 |
|---|---|---|---|---|
| Trade payables | **$** | **1,159,775** | $ | 1,630,554 |
| Accrued interest | | **96,882** | | 50,298 |
| Other accruals | | **542,010** | | 482,659 |
| Payroll remittance and goods and services tax | | **634,057** | | 373,456 |
| | **$** | **2,432,724** | $ | 2,536,967 |

**13. Long-term debt**

Long-term debt consists of the following components as at December 31, 2020 and 2019:

| | **Maturity** | **Interest rate** | | **2020** | | 2019 |
|---|---|---|---|---|---|---|
| BDC financing | | | | | | |
| Loan 1 | October 1, 2020 | Floating | $ | **-** | $ | 133,908 |
| Loan 2 | December 1, 2022 | Floating | | **166,560** | | 249,840 |
| Loan 3 | September 1, 2024 | Floating | | **291,480** | | 374,760 |
| Loan 4 | September 1, 2021 | Floating | | **11,520** | | 34,560 |
| Loan 5 | August 1, 2026 | Floating | | **1,527,840** | | 1,850,790 |
| Loan 6 | December 1, 2025 | Floating | | **2,970,504** | | 3,636,640 |
| | | | | **4,967,904** | | 6,280,498 |
| Secured debenture | January 1, 2022 | Fixed | | **1,000,000** | | 1,000,000 |
| | | | | **5,967,904** | | 7,280,498 |
| Less current portion | | | | **(1,058,651)** | | (1,222,148) |
| | | | **$** | **4,909,253** | $ | 6,058,350 |

*(in Canadian dollars)*

**13. Long term debt** *(continued)*

**Reconciliation of Long-term debt**

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

| | | **2020** | | 2019 |
|---|---|---|---|---|
| Long-term debt, beginning of the year | **$** | **7,280,498** | $ | 4,115,015 |
| Proceeds on Loan 3 | | **-** | | 319,445 |
| Proceeds on Loans 5 and Loan 6 for business acquisitions | | **-** | | 3,708,040 |
| Proceeds on long-term debt | | **-** | | 4,027,485 |
| Repayment of long-term debt | | **(1,228,648)** | | (688,107) |
| Total cash flow from long-term debt | | **(1,228,648)** | | 3,339,378 |
| Effect of unrealized foreign exchange gain on income | | **(31,012)** | | (102,495) |
| Effect of unrealized foreign exchange gain on translation | | **(52,934)** | | (71,400) |
| Long-term debt, end of the year | **$** | **5,967,904** | $ | 7,280,498 |

Business Development Bank of Canada Financing ("BDC Financing"):

Loan 1 – This loan of $1,406,000 was fully drawn down in 2015. The proceeds from the loan were used to support equipment additions and was drawn down as these expenditures were incurred. The interest, which was payable monthly was set at 1.75% above the BDC floating base rate of 4.55%. The loan was repayable over seven years. Payments of principal of $33,477 were required monthly from July to December of each of the years to October 2020. The loan was fully repaid during the fourth quarter of 2020.

Loan 2 – In June 2016, the Company's wholly-owned subsidiary, CEMATRIX (Canada) Inc., entered into an agreement with the BDC for a working capital loan of $500,000. The loan was fully drawn down in December 2016. The interest, which is currently 8.41% and is payable monthly, is set at 3.86% above the BDC floating base rate of 4.55%. The loan is repayable over six years, with seasonal payments of principal required from July to December of each year starting in July 2017. Payments of principal of $14,200 were required in July 2017 and $13,880 from August to December 2017. Principal payments for each year thereafter of $13,880 are required monthly from July to December of 2018 to 2022.

Loan 3 – In October 2016, the Company's wholly-owned subsidiary, CEMATRIX (Canada) Inc., entered into an agreement with the BDC for an equipment loan of $500,000. This loan can be drawn down anytime over the 30 months from the date of the loan and was fully drawn down in April 2019. The interest, which is currently 6.40% and is payable monthly, is set at 1.85% above the BDC floating base rate of 4.55%. At the Company's option the interest rate can be fixed once the loan is fully drawn. Interest, on any loan amounts drawn, is payable monthly. The loan is repayable over six years, with seasonal payments of principal required. Payments of principal of $14,200 were required in October 2018 and $13,880 from November to December 2018. Payments of principal of $13,880 monthly are required from July to December for each of the years 2019 to 2023 and $13,880 monthly from July to September 2024.

**13. Long term debt** *(continued)*

Loan 4 – In March 2017, the Company's wholly-owned subsidiary, CEMATRIX (Canada) Inc., entered into an agreement with the BDC for a loan of $100,000 to fund the first year costs related to a program offered by the BDC that will assist the Company in establishing its growth strategy. The loan was fully drawn down in March 2017. The interest, which is currently 5.55% and is payable monthly, is set at 1.00% above the BDC floating base rate of 4.55%. The loan is repayable over four years, with seasonal payments of principal required. Payments of principal of $4,000 were required in August 2017 and $3,840 from September to December 2017, of $3,840 monthly from July to December 2017 and from September to December 2018. Payments of principal of $3,840 are required from July to December for each of the years 2019 to 2020 and $3,840 monthly from July to September 2021.

Loan 5 – In May 2018 the Company entered into an agreement with the BDC for a loan of $1,800,000 USD to fund a portion of the purchase price of the MOS acquisition. The interest, which is currently 6.5% and is payable monthly, is set at 1.60% above the BDC floating USD base rate of 4.90%. The loan is repayable over eight years, with seasonal payments of principal required. Payments of principal of $37,500 USD were required from September to December 2018. Payments of principal of $37,500 USD are required from July to December for the years 2019 to 2025 and from July to August 2026. On May 31, 2018, the Canadian equivalent of this loan was $2,332,620. On December 31, 2020, the Canadian dollar equivalent of this was $1,527,840. The difference being $804,780 which is the combination of principal repayments of $785,573 and unrealized foreign exchange gain of $19,207, which was recognized on the statement of loss and comprehensive loss.

Loan 6 – In October 2019, the Company's wholly-owned subsidiary, CEMATRIX (USA) Inc., an agreement with the BDC for a loan of $2,800,000 USD to fund the purchase price of the PIGCO acquisition. The interest is payable monthly and is currently at 8.6% which is set at 3.70% above the BDC floating USD base rate of 4.90%. The loan is repayable over six years, with seasonal payments of principal required. A principal repayment of $78,050 USD is required on July 2020 and $77,770 USD from August to December 2020. Thereafter, monthly principal repayments of $77,770 USD are required from July to December from years 2021 to 2025. On October 1, 2019 the Canadian equivalent of this loan was $3,708,040. On December 31, 2020, the Canadian dollar equivalent of this was $2,970,504. The difference being $737,536 which is the combination of principal repayments of $613,202 and unrealized foreign exchange gain of $124,334 being recognized on the translation of foreign subsidiaries.

Loans 1, 4, 5 and 6 may be prepaid, on each anniversary date, up to 15% of the then outstanding principal amount but if not used the prepayment privilege for that anniversary date ceases. In addition to the annual privilege the Company may prepay all or part of the principal outstanding plus any interest owing up to the time of prepayment plus an indemnity equal to three months interest on the prepaid principal at the floating rate then applicable if the loan is at floating rates, or if the loan is at a fixed rate, the sum of three months interest on the prepaid principal at the fixed interest rate then applicable and an interest differential relative to current fixed rate loans of the BDC.

Loan 2 may be prepaid at any time without indemnity. For Loan 2, the BDC will, within 24 months of the loan, and provided there are no adverse material changes, re-advance, one time only, any repaid portion of the loan in an amount not less than $10,000 under the same terms and conditions, other than a revised amortization period and maturity date, if applicable.

Loan 3 may be prepaid at any time without indemnity. If the loan is at floating rates, any prepayment must include any interest owing up to the time of the prepayment. If the loan is at a fixed rate any prepayment must include any interest owing up to the time of the prepayment and an interest differential charge.

Under terms of the BDC Financing loans, the Company will have the option to prepay the facilities. The prepayment penalties vary depending on the time frame. Timeframe and terms are specified in individual agreements. The prepayment option is considered to be an embedded derivative with a fair value of nil at the date of issuance and at December 31, 2020.

*(in Canadian dollars)*

## 13. Long term debt *(continued)*

The BDC Financing loans are secured with a general security agreement providing a first security interest in the Company's current owned equipment and new equipment acquired pursuant to the BDC Financings and a security interest in all present and after acquired personal property of the Company subject only to lender charges on receivables and inventory in support of the Company's demand operating loan and future charges on specific equipment to a creditor for financing the purchase or lease thereof.

There are no financial covenants with the BDC Financing loans 1 to 4. The BDC Financing loan 5 and loan 6 have a consolidated fixed charge coverage ratio financial covenant which is tested annually. At December 31, 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.

Secured Debenture:

In February 2014, the Company issued a secured debenture for $1,000,000 ("Secured Debenture") to an unrelated party. The Secured Debenture bears interest of 9%, payable monthly and is repayable in full in July 2020. In September 2019, the Secured Debenture was termed-out over a period of five years where the original bullet principal repayment due in July 2020 was replaced with principal repayments of $200,000 on January 1st in years 2021 to 2025. Subsequently, in December 2020, the principal repayments of $200,000 was deferred, with payments now starting January 1, 2022 and ending January 1, 2026. The Secured Debenture is secured by the Company's currently owned equipment and new equipment acquired, subject to the priority of the BDC Financing. The Secured Debenture is further secured by all present and after acquired personal property of the Company subject only to lender charges on receivables and inventory in support of the Companies line of credit and any charges on specific equipment financed or leased.

The terms of the Secured Debenture restrict the amount of bank operating loan to an amount equal to $1,000,000, with an increase to $1,500,000 on a short-term basis during the Company's busy season, plus 60% of the Company's aggregate after tax earnings from the date the Secured Debenture was issued, without prior consent from the lender.

## 14. Lease obligations

Lease obligations consists of the following components as at December 31, 2020 and 2019:

| | | **2020** | | 2019 |
|---|---|---|---|---|
| Lease obligations, January 1 | **$** | **1,972,172** | $ | 288,953 |
| Adoption of IFRS 16 | | **-** | | 643,632 |
| Additions | | **632,357** | | 635,198 |
| Business acquisition *(note 5)* | | **-** | | 662,053 |
| Lease payments (including interest) | | **(695,975)** | | (317,054) |
| Interest expense *(note 19)* | | **176,875** | | 80,291 |
| Foreign exchange | | **(20,328)** | | (20,901) |
| Value of lease obligation, end of year | | **2,065,101** | | 1,972,172 |
| Less current portion | | **(583,749)** | | (446,001) |
| Lease obligations, December 31, 2020 | **$** | **1,481,352** | $ | 1,526,171 |

**14. Lease obligations** *(continued)*

The Company's lease obligations mainly relate to real property leases that are utilized within their operations. The Company has also entered into leases pertaining to various pieces of operating equipment including cars, trucks, trailers and computer equipment. Leases are entered into and terminated when they meet specific business requirements.

**15. Earn-out liability**

The earn-out will pay the Vendor 70% of the earnings before interest, income taxes, depreciation and amortization ("EBITDA") of MOS above $500,000 USD for the first 12 month period after May 31, 2018 and 65% of the EBITDA above $500,000 USD for the second and third 12 month periods after May 31, 2018. At a 27% discount rate, the earn-out liability, which is denominated in USD is measured at FVTPL and recalculated at every reporting period based upon management's estimate which considers economic conditions, customer demand for MOS's services and current borrowing rates available to the Company.

In addition, 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 EBITDA above $500,000 USD to the Vendor, ending September 30, 2023. The Company has recognized a liability for the first earn-out payment based on preceding 12 month period of $468,014 ($352,138 USD).

Earn-out liability consists of the following components as at December 31, 2020 and 2019:

| | | **2020** | | 2019 |
|---|---|---|---|---|
| Balance, January 1 | **$** | **1,517,838** | $ | 2,180,030 |
| Revaluation in the year | | **(80,350)** | | (443,127) |
| Addition (*note 20)* | | **468,014** | | - |
| Payments | | **-** | | (534,436) |
| Interest (*note 19)* | | **27,332** | | - |
| Accretion expense (*note 19)* | | **265,387** | | 407,749 |
| Foreign exchange difference | | **(70,180)** | | (92,378) |
| Value of liability, end of year | | **2,128,041** | | 1,517,838 |
| Less current portion | | **(2,128,041)** | | (870,678) |
| Earn-out liability, December 31 | **$** | **-** | $ | 647,160 |

Earn-out liability consists of the following tranches in relation to the MOS and PIGCO acquisitions as at December 31, 2020:

| | **Payment due date** | | **2020** |
|---|---|---|---|
| **MOS acquisition** | | | |
| Tranche 1 (June 1, 2018 – May 31, 2019) | August 29, 2019 – *see below* | $ | 108,031 |
| Tranche 2 (June 1, 2019 – May 31, 2020) | August 29, 2020 – *see below* | | 928,921 |
| Tranche 3 (June 1, 2020 – May 31, 2021) | August 29, 2021 | | 642,746 |
| **PIGCO acquisition** | | | |
| Tranche 1 (October 1, 2019 – September 30, 2020) | December 29, 2020 | | 448,343 |
| | | $ | 2,128,041 |

*(in Canadian dollars)*

**15. Earn-out liability** *(continued)*

The MOS earn-out payment is due 90 days after the anniversary date and accrues interest at 8% per year if not paid. However, due to the non-compliance of BDC loan covenant as at December 31, 2020, the bank has enforced a standstill agreement on the MOS earn-out.

The PIGCO earn-out payment is due 90 days after the anniversary date and accruing interest at 2.0% above US prime lending rate per year as it was not repaid on the due date.

**16. Convertible debt**

(a) In conjunction with the acquisition of MOS on May 31, 2018, a $2,500,000 USD convertible note was issued to the Vendor. The convertible note bears interest at a rate of 8% per year, payable quarterly, for a period of three years. Any time, at the option of the holder, the convertible note can convert into 13,373,684 CEMATRIX common shares, the equivalent of $0.2375 per share. CEMATRIX may repay the convertible note and may force the conversion of the convertible note upon 40 days' written notice after a period of 12 months, subject to an early payment and forced conversion penalties, as applicable.

The convertible note is trifurcated into a conversion feature, prepayment feature and host debt contract. The conversion feature is an embedded derivative as the convertible note violates the fixed for fixed criterion because the convertible note is denominated in a currency other than the Company's functional currency. The prepayment feature is an embedded derivative as its value is not closely related with the value of the host debt contract. The conversion feature and prepayment feature are measured at FVTPL. Changes in the fair value of the conversion and prepayment feature will be recognized in profit or loss. The host debt contract was initially measured at its fair value and is subsequently measured at amortized cost over the term to maturity using an effective interest rate of 11.2%.

The fair value of the conversion feature was determined using a Black-Scholes option pricing model. The fair value of the prepayment feature was determined using a modified Black-Scholes option pricing model that incorporates the prepayment penalty and is referred to as the Barrier option pricing model.

At December 31, 2020 and 2019, the following assumptions were used:

| | **2020** | 2019 |
|---|---|---|
| Estimated fair value per common share | **$0.48** | $0.19 |
| Common share price | **$0.72** | $0.34 |
| Risk-free interest rate | **0.20%** | 1.69% |
| Expected life | **0.41 years** | 1.42 years |
| Expected volatility in stock price | **63.7%** | 103.7% |
| Expected annual dividend yield | **nil** | nil |
| Estimated forfeiture rate | **nil** | nil |
| Prepayment penalty | **5% - 10%** | 5% - 10% |

*(in Canadian dollars)*

## 16. Convertible debt *(continued)*

Convertible note consists of the following components as at December 31, 2020 and December 31, 2019

| | **Host Debt Contract** | **Derivative Features** | **Total** |
|---|---|---|---|
| At December 31, 2018 | 3,178,414 | 199,978 | 3,378,392 |
| Accretion expense | 86,196 | - | 86,196 |
| Unrealized foreign exchange gain | (154,187) | - | (154,187) |
| Fair value adjustment loss (gain) | - | (138,181) | (138,181) |
| At December 31, 2019 | 3,110,423 | 61,797 | 3,172,220 |
| Interest expense (*note 19)* | **268,240** | **-** | **268,240** |
| Accretion expense (*note 19)* | **97,317** | **-** | **97,317** |
| Interest payment | **(268,240)** | **-** | **(268,240)** |
| Unrealized foreign exchange gain | **(66,192)** | **-** | **(66,192)** |
| Fair value adjustment loss (gain) | **-** | **6,336,452** | **6,336,452** |
| At December 31, 2020 | **3,141,548** | **6,398,249** | **9,539,797** |

(b) 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. The convertible debenture bears interest at a rate of 8% per year, payable semi-annually, till its maturity date of April 22, 2023. At the option of the holder, each debenture is convertible into 2,500 units of the Company at a conversion price of $0.40 per unit, prior to the maturity date. Each unit consists of one common share of the Company and one-half of a share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share of the Company at an exercise price of $0.45 for a period of 36 months, following the date of its issuance. The Company may force the conversion of outstanding debentures, upon 30 days written notice, after a period of 12 months, in the event the Company's common shares price exceeds $0.80 per share for the preceding twenty consecutive trading days.

The convertible debentures are compound financial instruments, trifurcated into a forced conversion feature, host debt contract and equity feature. The forced conversion feature is an embedded derivative as its value is not closely related with the value of the host debt contract.

The forced conversion feature is measured at fair value, with changes being recognized in profit or loss. The fair value of the forced conversion feature was determined using a modified Black-Scholes valuation model. The host debt contract was initially measured at its fair value and subsequently measured at amortized cost over the term to maturity, using an effective interest rate of 20.61%.

The equity feature is comprised of a base conversion feature and brokers warrants. The base conversion feature is valued on a residual basis after accounting for the host debt and forced conversion features and represents the 14,300,000 units that are issuable on the conversion of $5,720,000 convertible debentures. The broker warrants are valued on a fair value basis and represents the 1,100,000 units that were issued on close and included in the transaction costs allocated to the various components. The fair value of the brokers' warrants was also determined using a modified Black-Scholes valuation model with the following assumptions: expected dividend yield of 0%, expected volatility of 65.0%, which is based on historical volatility, risk free interest rate of 0.39% and an expected maturity of 3 years.

*(in Canadian dollars)*

**16. Convertible debt** *(continued)*

Transaction costs of $638,903 in cash, $220,000 in additional debentures and 1,100,000 brokers' warrants valued at $299,750 were incurred on the issuance and have been allocated pro rata to the various components, based on actual allocation of proceeds upon initial recognition. The transaction costs allocated to forced conversion feature was expensed in profit or loss, while the transaction costs allocated to host debt and equity feature were recorded against their respective components. The $220,000 transaction cost in additional debentures was included with the principal offering for a total consideration of $5,720,000. The additional debentures have a price of $1,000 per debenture and convertible into units in the same manner as mentioned above for principal offering. The brokers' warrants entitle the holder to acquire one unit of the Company at a conversion price of $0.40 per unit at any time before three years, following the date of this transaction. Each unit consists of one common share and one-half of a share purchase warrant with the same exercise price and expiry term for warrants as mentioned above for principal offering.

At April 22, 2020 and December 31, 2020, the following assumptions were used for forced conversion feature:

| | **December 31, 2020** | April 22, 2020 |
|---|---|---|
| Estimated fair value per common share | **$0.026** | $0.009 |
| Common share price | **$0.72** | $0.40 |
| Risk-free interest rate | **0.24%** | 0.39% |
| Expected life | **2.3 years** | 3 years |
| Expected volatility in stock price | **65.0%** | 65.0% |
| Expected annual dividend yield | **nil** | nil |

Convertible debenture consists of the following components as at December 31, 2020:

| | **Host Debt Contract** | **Forced Conversion** | **Equity Feature** | **Total** |
|---|---|---|---|---|
| At April 22, 2020 | **5,107,960** | **(125,840)** | **737,880** | **5,720,000** |
| Transaction costs allocated | **(1,034,677)** | **25,490** | **(149,466)** | **(1,158,653)** |
| Interest expense (*note 19*) | **309,135** | **-** | **-** | **309,135** |
| Accretion expense (*note 19*) | **250,762** | **-** | **-** | **250,762** |
| Broker warrants units | **-** | **-** | **299,750** | **299,750** |
| Transaction costs expensed | **-** | **(25,490)** | **-** | **(25,490)** |
| Deferred tax on equity feature | **-** | **-** | **(135,335)** | **(135,335)** |
| Conversion – shares & warrants (net of tax) | **(601,736)** | **18,590** | **(66,933)** | **(650,079)** |
| Interest payment | **(243,956)** | **-** | **-** | **(243,956)** |
| Exercise of broker warrants | **-** | **-** | **(29,634)** | **(29,634)** |
| Fair value adjustment gain | **-** | **(206,798)** | **-** | **(206,798)** |
| At December 31, 2020 | **3,787,488** | **(314,048)** | **656,262** | **4,129,702** |

Net proceeds of $4,835,607 were received on the issuance of convertible debenture, which was equal to the gross amount of $5,720,000 less: 1) cash transaction costs of $638,903, which were allocated to all the components of the convertible debenture; 2) additional convertible debentures of $220,000, which were included in the gross amount of the offering, for which no cash was received and considered as part of the transaction costs and; 3) cash transaction costs of $25,490 which were expensed immediately to profit or loss.

*(in Canadian dollars)*

## 16. Convertible debt *(continued)*

The following table summarizes the changes in convertible debenture and broker warrants units of the Company as at December 31, 2020:

| | Number Of Convertible Debenture Units | | Amount | Number Of Broker Warrants Units | | Amount |
|---|---|---|---|---|---|---|
| At April 22, 2020 | **14,300,000** | **$** | **5,720,000** | **1,100,000** | **$** | **299,750** |
| Conversion – shares & warrants | **(2,112,500)** | | **(845,000)** | **(108,750)** | | **(29,634)** |
| At December 31, 2020 | **12,187,500** | **$** | **4,875,000** | **991,250** | **$** | **270,116** |

Each unit can be converted into one common share of the Company and one-half of a share purchase warrant.

## 17. Share capital

### *(a) Authorized*

Unlimited number of no par value voting common shares
Preferred shares – to be issued in series as authorized by the Board of Directors

### *(b) Issued*

The following table summarizes the changes in the issued common shares of the Company for the years ended December 31, 2020 and 2019:

| | **2020** | | | 2019 | | |
|---|---|---|---|---|---|---|
| | **Number of Shares** | | **Amount** | Number of Shares | | Amount |
| Common shares, beginning of year | **59,286,019** | **$** | **10,952,706** | 44,480,769 | $ | 9,140,676 |
| Common shares issued (ii), (iii), (iv), (v) | **7,490,731** | | **2,208,281** | - | | - |
| Private placement, net of costs (i) | **-** | | **-** | 11,500,000 | | 2,141,800 |
| Business acquisitions *(note 5)* | **-** | | **-** | 3,305,250 | | 925,470 |
| Reclassification of options (iii) | **-** | | **37,066** | - | | (1,255,240) |
| Reclassification of broker warrants (v) | **-** | | **18,781** | - | | - |
| Reclassification of warrants | **-** | | **585,385** | - | | - |
| Common shares, end of year | **66,776,750** | **$** | **13,802,219** | 59,286,019 | $ | $10,952,706 |

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

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

*(in Canadian dollars)*

**17. Share capital** *(continued)*

(ii) In 2020, for gross proceeds of $556,893 and $1,124,612 received, the Company issued 1,856,304 and 3,213,177 common shares at a price of $0.30 and $0.35, respectively on the exercise of warrants.

(iii) In 2020, for gross proceeds of $18,000 received, the Company issued 100,000 common shares at a price of $0.18 on the exercise of employee stock options. In addition, for gross proceeds of $22,000 received, the Company issued 50,000 common shares (100,000 common shares in total) at a price of $0.20 and $0.24 on the exercise of employee stock options. The related non-cash stock-based compensation of $37,066, previously charged to contributed surplus was also reclassified to share capital.

(iv) 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.

(v) In 2020, the Company issued 108,750 common shares upon the exercise of broker warrants for gross proceeds of $43,500. The related fair value adjustment of $29,634, previously charged to equity feature of convertible debt was also reclassified to share capital - $18,781 and contributed surplus - $10,853.

***(c) Share Purchase Warrants***

The following table reflects the issuance of warrants for the year ended December 31, 2020 and December 31, 2019 which is recorded in contributed surplus:

| | **2020** | | 2019 | |
|---|---|---|---|---|
| | **Number of Warrants** | **Weighted average price** | Number of Warrants | Weighted average price |
| Warrants, beginning of year | **15,554,177** | **$0.310** | 3,263,177 | $0.350 |
| Private placement | **-** | **-** | 12,291,000 | $0.300 |
| Convertible debenture conversion | **1,056,250** | **$0.400** | - | - |
| Broker warrants conversion | **54,375** | **$0.450** | - | - |
| Warrants expired | **(50,000)** | **$0.300** | - | - |
| Warrants exercised | **(5,069,481)** | **$0.332** | - | - |
| Warrants, end of year | **11,545,321** | **$0.310** | 15,554,177 | $0.310 |

*(in Canadian dollars)*

## 17. Share capital *(continued)*

The fair value per share purchase warrant was determined using the following weighted average assumptions at the time of the issuance using the Black Scholes option pricing model:

| | August 14, 2019 | August 23, 2019 |
|---|---|---|
| Estimated fair value per share purchase warrant | **$0.10** | **$0.10** |
| Common share price | **$0.20** | **$0.20** |
| Exercise price | **$0.30** | **$0.30** |
| Risk-free interest rate | **1.38%** | **1.38%** |
| Expected life | **2 years** | **2 years** |
| Expected volatility in stock price | **111.0%** | **112.0%** |
| Expected annual dividend yield | nil | nil |

The fair value of these warrants was determined at the time of the issuance of convertible debenture using a modified Black-Scholes valuation model with the following assumptions:

| | Warrants issued upon conversion of convertible debt | Warrants issued upon conversion of broker warrants |
|---|---|---|
| Estimated fair value per share purchase warrant | **$0.27** | **$0.20** |
| Common share price | **$0.40** | **$0.40** |
| Exercise price | **$0.45** | **$0.45** |
| Risk-free interest rate | **0.39%** | **0.39%** |
| Expected life | **3 years** | **3 years** |
| Expected volatility in stock price | **65%** | **65%** |
| Expected annual dividend yield | **nil** | **nil** |

## 18. Cost of sales

Cost of sales consists of the following components for the years ended December 31, 2020 and 2019:

| | | **2020** | | 2019 |
|---|---|---|---|---|
| Manufacture of cellular concrete | | | | |
| Materials | **$** | **11,527,717** | $ | 9,442,387 |
| Direct labour | | **5,237,938** | | 3,776,167 |
| Variable expenses | | **2,515,576** | | 2,231,881 |
| Fixed overhead | | **163,099** | | 324,255 |
| Depreciation | | **1,501,982** | | 999,807 |
| | **$** | **20,946,312** | $ | 16,774,497 |

*(in Canadian dollars)*

## 19. Finance costs

The finance costs incurred for the years ended December 31, 2020 and 2019 are as follows:

| | | **2020** | | 2019 |
|---|---|---|---|---|
| Interest | | | | |
| BDC financings *(note 13)* | **$** | **485,739** | $ | 358,738 |
| Secured debenture *(note 13)* | | **97,556** | | 90,000 |
| Convertible debt *(note 16)* | | **577,375** | | 270,807 |
| Lease obligations *(note 14)* | | **176,875** | | 80,291 |
| Bank operating loan *(note 10)* | | **27,870** | | 62,194 |
| US operating loan *(note 11)* | | **112,716** | | 117,896 |
| Earn-out liability *(note 15)* | | **27,332** | | - |
| Other | | **44,772** | | 7,436 |
| | **$** | **1,550,235** | $ | 987,362 |

The accretion costs incurred for the years ended December 31, 2020 and 2019 are as follows:

| | | **2020** | | 2019 |
|---|---|---|---|---|
| Accretion | | | | |
| Earn-out liability *(note 15)* | **$** | **265,387** | $ | 407,749 |
| Convertible debt *(note 16)* | | **348,079** | | 86,196 |
| | **$** | **613,466** | $ | 493,945 |

## 20. Other income

Other income (expenses) for the years ended December 31, 2020 and 2019 consists of the following:

| | | **2020** | | 2019 |
|---|---|---|---|---|
| Unrealized foreign exchange gains | **$** | **97,469** | $ | 259,443 |
| Realized foreign exchange gains (losses) | | **(54,175)** | | 1,325 |
| Gain (loss) on sale of equipment | | **10,797** | | (1,084) |
| Gain on acquisition *(note 5)* | | **-** | | 1,278,468 |
| Equipment rental | | **94,800** | | 94,800 |
| Earn-out expense *(note 15)* | | **(468,014)** | | - |
| Government subsidies | | **781,369** | | - |
| Other | | **(6,446)** | | (615) |
| | **$** | **455,800** | $ | 1,632,337 |

Pursuant to an equipment lease agreement, entered into in 2017, with Lafarge Canada Inc. ("Lafarge"), the Company receives monthly rental payments of $7,900, when the equipment is on site over an initial term of five years for equipment utilized under the regional market development program with Lafarge.

In 2020, the Company sold three vehicles and equipment which had a book value of $38,697 for proceeds of $49,494. In 2019, the Company sold three vehicles, which had a book value of $42,084, for proceeds of $41,000.

During the year, the Company qualified for the Canada Emergency Wage and Rent subsidies, assistance offered by the Canadian Federal Government for qualifying entities impacted by the consequences of COVID-19 pandemic. As a result, the Company recorded wage and rent subsidies of $745,051 and $36,318, respectively for the year ended December 31, 2020.

*(in Canadian dollars)*

## 21. Taxes

The components of the Company's tax expense which has been recorded in these consolidated financial statements are as follows:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Loss before taxes | $ | (9,575,161) | $ | (309,083) |
| Combined statutory tax rate | | 24.0% | | 26.5% |
| Computed "expected" tax recovery | | (2,298,039) | | (81,907) |
| Differences resulting from: | | | | |
| Non-cash stock-based compensation | | 24,663 | | 123,019 |
| Change in enacted rate and other | | (175,752) | | (88,680) |
| Change in deferred tax assets not recognized | | 2,650,118 | | (7,830) |
| **Income tax expense (recovery)** | $ | 200,990 | $ | (55,398) |

The statutory rate declined from 26.5% to 24.0% due to reductions in the Alberta corporate tax rate on January 1, 2020 and July 1, 2020.

The tax effects of deductible and taxable temporary differences that give rise to the Company's deferred tax assets and liabilities are as follows:

**Deferred tax assets (liabilities)**

| Canada | December 31, 2019 | Charged to Equity | Deferred Tax Expense | Foreign exchange | December 31, 2020 |
|---|---|---|---|---|---|
| Non-capital losses | 1,048,953 | - | (346,839) | - | 702,114 |
| Finance lease obligations | 184,337 | - | (184,337) | - | - |
| Property and equipment | (354,706) | - | (39,638) | - | (394,344) |
| Convertible debt | - | (115,342) | (8,816) | - | (124,158) |
| Intangibles | (182,806) | - | (806) | - | (183,612) |
| Other | 236,210 | - | (236,210) | - | - |
| Net deferred tax asset (liability) | 931,988 | (115,342) | (816,646) | - | - |

| U.S. | December 31, 2019 | Business Combination | Deferred Tax Recovery | Foreign exchange | December 31, 2020 |
|---|---|---|---|---|---|
| Property and equipment | (2,828,251) | - | 247,580 | 58,592 | (2,522,079) |
| Intangibles | (382,280) | - | 191,309 | (382) | (191,353) |
| Other | 98,382 | - | 518,632 | (12,219) | 604,795 |
| Net operating losses | 113,636 | - | (117,346) | 3,710 | - |
| Net deferred tax asset (liability) | (2,998,513) | - | 840,175 | 49,701 | (2,108,637) |

*(in Canadian dollars)*

**21. Taxes** *(continued)*

Deferred tax assets (liabilities)

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

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

Deferred tax assets are recorded only to the extent that future taxable income will be available against which the deferred tax asset can be offset. Management estimates future taxable income using forecasts based on the best available current information. Based on current estimates, there is currently insufficient evidence that deferred tax asset will be recovered; therefore, the Company has not recognized any deferred tax asset in relation to Canada in the current year. In addition, deferred tax asset recognized in the prior years has been written off in the current year. The deferred tax asset will only be recognized with improved certainty and quantification of taxable profits related to these assets.

**Deferred tax assets (liabilities)**

| | **2020** | 2019 |
|---|---|---|
| Canada | | |
| Non-capital losses | **4,470,670** | 847,206 |
| Intangibles | **95,000** | 95,000 |
| Property, equipment and other | **7,762,088** | - |
| U.S. | | |
| Property and equipment | **-** | - |
| Other | **-** | - |
| Net deferred tax asset (liability) | **12,327,758** | 942,206 |

The Company has not recognized a deferred tax asset in respect to $4,470,670 of non-capital losses in Canada. These losses expire between 2026 and 2040.

*(in Canadian dollars)*

### 22. Loss per common share

The number of common shares included in the computation of basic and diluted loss per common share for the years ended December 31, 2020 and 2019 is as follows:

| | **2020** | 2019 |
|---|---|---|
| Weighted average common shares outstanding – basic | **62,051,858** | 49,671,572 |
| Effect of dilutive instruments | **-** | - |
| Weighted average common shares outstanding – diluted | **62,051,858** | 49,671,572 |

The stock options for the year ended December 31, 2020 and 2019 have no dilutive effect as the Company incurred losses in these years.

### 23. Non-cash stock-based compensation

The Company has an option plan for the issue of up to 10% of the issued and outstanding common shares of the Company. All options that are outstanding will expire upon maturity, or earlier, if the optionee ceases to be a director, officer, employee or consultant or there is a merger, amalgamation or change in control of the Company. The purpose of the option plan is to reward and retain directors, management and consultants important to the continued operation and growth of the Company.

The following table summarizes the changes in options for the years ended December 31, 2020 and 2019:

| | **2020** | | 2019 | |
|---|---|---|---|---|
| | **Number of Options** | **Weighted average price** | Number of Options | Weighted average price |
| Outstanding, beginning of year | **4,820,000** | **$0.230** | 4,220,000 | $0.230 |
| Granted | **550,000** | **$0.555** | 1,500,000 | $0.230 |
| Exercised | **(200,000)** | **$0.200** | - | - |
| Forfeited | **(250,000)** | **$0.200** | - | - |
| Expired | **(75,000)** | **$0.353** | (900,000) | $0.230 |
| Outstanding, end of year | **4,845,000** | **$0.266** | 4,820,000 | $0.230 |
| Exercisable, end of year | **3,838,334** | **$0.232** | 3,165,000 | $0.235 |

*(in Canadian dollars)*

## 23. Non-cash stock-based compensation *(continued)*

The following table summarizes the stock options to acquire common shares outstanding as at December 31, 2020:

| Range of exercise prices | Options Outstanding | Options Exercisable | Weighted average remaining life (years) | Weighted average exercise price – options outstanding | Weighted average exercise price – options exercisable |
|---|---|---|---|---|---|
| $0.19 - $0.22 | 1,320,000 | 1,013,334 | 1.72 | $0.20 | $0.20 |
| $0.23 - $0.29 | 2,925,000 | 2,775,000 | 1.40 | $0.24 | $0.24 |
| $0.40 - $0.59 | 600,000 | 50,000 | 3.73 | $0.55 | $0.43 |
| $0.19 - $0.59 | 4,845,000 | 3,838,334 | 1.96 | $0.27 | $0.23 |

Non-cash stock-based compensation for the year ended December 31, 2020 of $102,762 (2019 - $464,222) was recognized in the consolidated statement of loss and comprehensive loss with an offsetting amount charged to contributed surplus. Non-cash stock-based compensation has no current period impact on the Company's cash position.

At the date of grant, the per share fair value of the options granted and other assumptions, using the Black-Scholes option pricing model are as follows:

| | **2020** | 2019 |
|---|---|---|
| Estimated fair value per option | $0.29 - $0.42 | $0.10 - $0.23 |
| Weighted average common share price | $0.56 | $0.23 |
| Risk-free interest rate | 0.21 - 0.26% | 1.40 - 1.62% |
| Expected life | 5 years | 3 - 5 years |
| Expected volatility in stock price | 95% | 104 - 114% |
| Expected annual dividend yield | nil | nil |
| Estimated forfeiture rate | nil | nil |

## 24. Change in non-cash working capital

The changes in non-cash working capital items - asset (increases) decreases and liability increases (decreases) - are outlined below for the years ended December 31, 2020 and 2019.

| | **2020** | 2019 |
|---|---|---|
| Trade and other receivables | **$ 77,958** | $ 1,033,954 |
| Inventory | **(49,996)** | (295,734) |
| Prepaid expenses and deposits | **37,556** | (93,713) |
| Trade and other payables | **70,997** | (946,825) |
| | **$ 136,515** | $ (302,318) |

*(in Canadian dollars)*

## 25. Related party transactions

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).

***Compensation of key management personnel***
The remuneration of directors and other members of key management personnel during the years ended December 31, 2020 and 2019 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 |

## 26. Financial instruments and risk management

Set out below is a comparison, by category, of the carrying amounts and fair values of all of the Company financial instruments that are carried in the consolidated financial statements and how the fair value of financial instruments are measured.

**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.

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.

**26. Financial instruments and risk management** *(continued)*

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 (note 16).

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 (note 15).

There were no transfers between level 1, 2 and 3 inputs during the year.

**Risk management**

The Company's activities are exposed to a variety of financial risks: interest rate risk, credit risk, liquidity risk and foreign exchange risk. The Company's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on the Company's financial performance. Risk management is carried out by financial management in conjunction with overall Company governance.

(a) Interest Rate Risk
The BDC Financings, which totalled $4,967,904 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 increase/decrease in net loss attributable to common shareholders of approximately $37,200.

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

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

Financial instruments that subject the Company to credit risk consist primarily of cash and cash equivalents, 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).

*(in Canadian dollars)*

## 26. Financial instruments and risk management *(continued)*

(c) Liquidity Risk

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

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

| | Less than 1 year | 1 to 2 years | 2 to 6 years | Total |
|---|---|---|---|---|
| **As at 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** |
| | | | | |
| As at 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 |

**26. Financial instruments and risk management** *(continued)*

(d) Foreign Exchange Risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure relates to balances denominated in USD and the operations of its US subsidiary which are predominantly in USD. The Company does not hedge these items as the timing of related transactions is not certain. However, the management manages and mitigates foreign exchange risk by monitoring exchange rate trends and forecasted economic conditions.

As at December 31, the following balances are 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 |
| Lease obligations | **$** | **1,023,779** | $ | 918,177 |
| Earn-out liability | **$** | **1,671,411** | $ | 1,168,646 |
| Convertible debt – host debt and derivative liability | **$** | **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.

**27. Capital management**

Management defines capital as the Company's total shareholders' equity, its debt and finance lease obligations. The Company manages its capital structure and adjusts it in response to changes in economic conditions and the risk characteristics of its underlying assets. The Board of Directors does not establish a quantitative return on capital for management, but rather promotes year over year sustainable profitable growth. In addition, the Board of Directors has established policies to monitor company's performance against its operating and capital budgets and forecasts.

The Company's current objective when managing capital is to increase the Company's capital through growth in earnings and to re-invest the earnings generated to facilitate the continued growth in the Company, in order to provide an appropriate rate of return to shareholders.

Management reviews its capital management approach on an ongoing basis. There were no material changes to this approach during the year ended December 31, 2020. The Company is subject to externally imposed financial covenants with its bank operating loan and long-term debt loans 5 and 6 and certain restrictions imposed by the Secured Debenture.

*(in Canadian dollars)*

**27. Capital management** *(continued)*

The total capitalization as at December 31, 2020 and 2019 is outlined below:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Bank operating loan (*Note 10*) | **$** | **129,368** | $ | 940,259 |
| US operating loan *(Note 11)* | | **-** | | 2,186,313 |
| Long term debt *(Note 13)* | | **5,967,904** | | 7,280,498 |
| Lease obligations *(Note 14)* | | **2,065,101** | | 1,972,172 |
| Convertible debt – host debt and derivative liability *(Note 16)* | | **13,327,285** | | 3,172,220 |
| Total debt | | **21,489,658** | | 15,551,462 |
| Shareholders' equity | | **679,397** | | 7,571,802 |
| | **$** | **22,169,055** | $ | 23,123,264 |

**28. Geographical segmented information**

The Company has one operating segment and its primary business is the supply and placement of cellular concrete. It currently markets its services in Canada and the U.S. The tables below, present the sales to external customers for the years ended December 31, 2020 and 2019 and the total non-current assets attributable to the Company's geographical segments as at December 31, 2020 and 2019:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Sales to external customers | | | | |
| Canada | **$** | **5,135,523** | $ | 11,308,083 |
| U.S. | | **21,428,617** | | 11,242,871 |
| | **$** | **26,564,140** | $ | 22,550,954 |

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Total non-current assets | | | | |
| Canada | **$** | **4,280,231** | $ | 5,139,140 |
| U.S. | | **16,451,900** | | 18,403,058 |
| | **$** | **20,732,131** | $ | 23,542,198 |

**29. Subsequent Events**

**Financing**

On March 18, 2021, the Company completed a marketed public offering (the "Offering") through a short-form prospectus raising $23 million in gross proceeds. The Offering was for 35,384,600 units (the "Units") at a price of $0.65 per Unit of the Company. Each Unit consists of one common share of the Company (each a "Common Share") and one-half of one common share purchase warrant (each full warrant, a "Warrant"). Each Warrant will be exercisable for one Common Share at a price of $0.81, for a period of 24 months following closing of the Offering. The Company paid the Agents a cash commission equal to 7% of the gross proceeds of the Offering and issued 2,830,768 warrants of the Company (the "Broker Warrants") to the Agents equal to 8% of the number of Units issued under the Offering. Each Broker Warrant entitles the holder thereof to acquire one Unit of the Company at $0.65 until March 18, 2023. Additionally, the lead agents were paid a corporate finance fee satisfied by the issuance of 1,415,384 Units.