

CEMATRIX™

Cellular Concrete Solutions

CEMATRIX CORPORATION
Condensed Consolidated Financial Statements
(in 000's Canadian dollars)
June 30, 2022

**Management's Responsibility for Financial Reporting and Notice of No Auditor
Review of the Interim Condensed Consolidated Financial Statements for the Three and Six
Months Ended June 30, 2021**

To the Shareholders:

CEMATRIX CORPORATION

Management has responsibility for preparing the accompanying condensed consolidated financial statements. The condensed 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 condensed 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 condensed 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 condensed 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 to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee reviews the interim condensed consolidated financial statements and reports its findings to the Board for approval.

The Company's external auditor, MNP LLP, an independent firm of Chartered Professional Accountants, has not performed a review of these interim condensed consolidated financial statements.

August 10, 2022

Signed "Randy Boomhour"

Randy Boomhour, CPA, CMA

Chief Financial Officer

CEMATRIX CORPORATION

Condensed Consolidated Statements of Financial Position

As at June 30, 2022 (unaudited) and December 31, 2021 (audited)
(in 000's Canadian Dollars)

	2022	2021
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 13,826	\$ 19,945
Restricted cash (note 9)	-	286
Trade and other receivables (note 5)	3,918	4,911
Inventory (note 6)	882	718
Prepaid expenses and deposits	323	577
	18,949	26,437
Non-Current Assets		
Long-term investment (note 7)	2,172	-
Property and equipment	11,014	10,533
Right of use assets	1,438	1,638
Goodwill and intangibles (note 8)	5,849	5,754
Convertible debt – derivative asset (note 14)	20	27
	20,493	17,952
Total Assets	\$ 39,442	\$ 44,389
LIABILITIES and EQUITY		
Current Liabilities		
Trade and other payables (note 10)	2,180	3,204
Current portion of long-term debt (note 11)	891	877
Current portion of lease obligations (note 12)	631	578
Current portion of convertible debt – host debt (note 14)	3,291	-
	6,993	4,659
Non-Current Liabilities		
Long-term debt (note 11)	2,771	2,726
Lease obligations (note 12)	815	1,106
Convertible debt – host debt (note 14)	-	3,107
Deferred tax liability	731	1,210
	4,317	8,149
Total Liabilities	11,310	12,808
SHAREHOLDERS' EQUITY		
Share capital (note 15)	42,403	42,403
Convertible debt – equity component (note 14)	532	532
Contributed surplus	7,296	7,002
Accumulated other comprehensive loss	(462)	(549)
Deficit	(21,637)	(17,807)
Total Shareholders' Equity	28,132	31,581
Total Liabilities and Shareholders' Equity	\$ 39,442	\$ 44,389

Approved on behalf of the Board

Signed "Jeffrey Kendrick" Director

Signed "Steve Bjornson" Director

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

CEMATRIX CORPORATION
Condensed Consolidated Statements of Loss and Comprehensive Loss
For the three and six months ended June 30 (unaudited)
(in 000's Canadian Dollars, except per share and share data)

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Revenue (note 24)	\$ 4,022	\$ 4,017	\$ 9,145	\$ 8,526
Cost of sales (note 16)	(4,074)	(3,809)	(9,266)	(7,887)
Gross margin	(52)	208	(121)	639
Operating expenses				
Selling, general and administrative	(1,937)	(1,679)	(3,686)	(3,246)
Operating loss	(1,989)	(1,471)	(3,807)	(2,607)
Stock-based compensation (note 20)	(165)	(48)	(294)	(90)
Finance costs (note 17)	(161)	(228)	(322)	(597)
Other income (expenses) (note 18)	325	230	285	449
Amortization of intangibles (note 8)	-	(176)	-	(357)
Accretion costs (note 17)	(94)	(102)	(184)	(183)
Revaluation of earn-out liability (note 13)	-	132	-	132
Fair value adjustment of derivatives (note 14)	(7)	1,101	(7)	2,722
Loss before income taxes	(2,091)	(562)	(4,329)	(531)
Provision for deferred taxes	472	225	498	429
Provision for current taxes	-	(79)	-	(79)
Loss attributable to the common shareholders	(1,619)	(416)	(3,831)	(181)
Unrealized foreign exchange gain (loss) on translation of foreign subsidiary	50	(154)	87	(304)
Total comprehensive loss for the period	\$ (1,569)	\$ (570)	\$ (3,744)	\$ (485)
Loss per common share (note 19)				
Basic and diluted	\$ (0.012)	\$ (0.004)	\$ (0.029)	\$ (0.002)
Weighted average number of common shares (note 19)				
Basic and diluted	133,939,938	116,255,013	133,939,938	97,632,046

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

CEMATRIX CORPORATION
Condensed Consolidated Statements of Changes in Shareholders' Equity
For the three and six months ended June 30 (unaudited)
(in 000's Canadian Dollars)

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Convertible Debt	Deficit	Total Shareholders' Equity
Balance at December 31, 2021	\$ 42,403	\$ 7,002	\$ (549)	\$ 532	\$ (17,807)	\$ 31,581
Stock-based compensation (note 20)	-	129	-	-	-	129
Net loss attributable to common shareholders	-	-	-	-	(2,211)	(2,211)
Unrealized foreign exchange loss on translation of foreign subsidiaries	-	-	37	-	-	37
Balance at March 31, 2022	\$ 42,403	\$ 7,131	\$ (512)	\$ 532	\$ (20,018)	\$ 29,536
Stock-based compensation (note 20)	-	165	-	-	-	165
Net loss attributable to common shareholders	-	-	-	-	(1,619)	(1,620)
Unrealized foreign exchange loss on translation of foreign subsidiaries	-	-	50	-	-	51
Balance at June 30, 2022	\$ 42,403	\$ 7,296	\$ (462)	\$ 532	\$ (21,637)	\$ (28,132)
Balance at December 31, 2020	\$ 13,802	\$ 2,637	\$ (464)	\$ 656	\$ (15,952)	\$ 679
Common shares issued (note 15)	2,016	-	-	-	-	2,016
Public offering (note 15)	15,936	4,954	-	-	-	20,890
Reclassification of contributed surplus to share capital (note 15)	825	(825)	-	-	-	-
Stock-based compensation (note 20)	-	42	-	-	-	42
Convertible debt conversion (note 14 and 15)	570	292	-	(90)	-	772
Exercise of broker warrants (note 14 and 15)	14	9	-	(23)	-	-
Net income attributable to common shareholders	-	-	-	-	235	235
Unrealized foreign exchange loss on translation of foreign subsidiaries	-	-	(150)	-	-	(150)
Balance at March 31, 2021	\$ 33,163	\$ 7,109	\$ (614)	\$ 543	\$ (15,717)	\$ 24,484
Common shares issued (note 15)	540	-	-	-	-	540
Reclassification of contributed surplus to share capital (note 15)	910	(910)	-	-	-	-
Stock-based compensation (note 20)	-	48	-	-	-	48
Convertible debt conversion (note 14 and 15)	6,697	27	-	(6)	-	6,718
Net income attributable to common shareholders	-	-	-	-	(416)	(416)
Unrealized foreign exchange loss on translation of foreign subsidiaries	-	-	(154)	-	-	(154)
Balance at June 30, 2021	\$ 41,310	\$ 6,274	\$ (768)	\$ 537	\$ (16,133)	\$ 31,220

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

CEMATRIX CORPORATION
Condensed Consolidated Statements of Cash Flows
For the three and six months ended June 30 (unaudited)
(in 000's Canadian Dollars)

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Cash generated from (used in):				
Operating activities				
Net loss attributable to common shareholders	\$ (1,619)	\$ (416)	\$ (3,830)	\$ (181)
Add (deduct) non-cash items				
Provision for deferred taxes	(471)	(225)	(497)	(429)
Depreciation and amortization	452	632	893	1,272
Finance and accretion costs (note 17)	255	330	506	780
Stock-based compensation (note 20)	165	48	294	90
Loss on sale of equipment (note 18)	-	-	(43)	-
Unrealized foreign exchange loss (gain) (note 18)	(105)	(147)	(123)	(203)
Fair value adjustment of derivatives (note 14)	7	(1,101)	7	(2,722)
Fair value adjustment in earn-out liability (note 13)	-	(132)	-	(132)
	(1,316)	(1,011)	(2,793)	(1,525)
Net change in non-cash working capital items (note 21)	(689)	(152)	88	732
Cash generated from (used in) operating activities	(2,005)	(1,163)	(2,705)	(793)
Investing activities				
Purchase of property and equipment	(453)	(55)	(983)	(148)
Purchase of Long-term investments (note 7)	(1,444)	-	(2,156)	-
Proceeds on sale of property and equipment (note 18)	-	-	49	-
Purchase of intangibles (note 8)	-	-	-	(1)
Net cash from (used) in investing activities	(1,897)	(55)	(3,090)	(149)
Financing activities				
Repayment of finance lease obligations (note 12)	(156)	(140)	(303)	(289)
Interest paid	(331)	(301)	(322)	(578)
Repayment of bank operating loan (note 9)	-	-	-	(129)
Repayment of secured debenture (note 11)	-	-	-	(1,000)
Repayment of long-term debt (note 11)	-	-	-	(470)
Repayment of earn-out liability (note 13)	-	(56)	-	(1,497)
Proceeds from public offering, net of costs (note 15)	-	-	-	20,890
Proceeds from exercise of options and warrants (note 15)	-	540	-	2,556
Cash generated from (used in) financing activities	(487)	43	(625)	19,483
Foreign exchange effect on cash	(74)	1	14	(28)
Increase (decrease) in cash	(4,463)	(1,174)	(6,406)	18,513
Cash beginning of period	18,289	22,448	20,232	2,761
Cash end of period	13,826	21,274	13,826	21,274
Cash and cash equivalents	13,826	20,988	13,826	20,988
Restricted cash	-	286	-	286
	\$ 13,826	\$ 21,274	\$ 13,826	\$ 21,274

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

CEMATRIX CORPORATION

Notes to the Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2022, and 2021 (unaudited)
(in 000's Canadian Dollars)

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 in Canada on the TSX Venture Exchange under the symbol “CVX.V” and in the United States on the OTCBB under the symbol “CTXXF”. The Company is domiciled in Canada with its registered office at 9727 – 40th Street S.E., Calgary, Alberta, Canada.

CEMATRIX is a leading manufacturer and supplier of cellular concrete products with applications in a variety of markets across North America. The Company operates through its subsidiaries CEMATRIX (Canada) Inc., CEMATRIX (USA) Inc., MixOnSite USA, Inc. (“MOS”), Pacific International Grout Company (“PIGCO”), and Canadian Cellular Concrete Services Inc. (“CCCS”).

The condensed consolidated financial statements of the Company for the three and six months ended June 30, 2022, were authorized for issue in accordance with a resolution of the Board of Directors on August 10, 2022.

2. Basis of preparation

Statement of compliance

These condensed consolidated financial statements for the three and six months ended June 30, 2022, 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 condensed 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. Unless otherwise stated, all amounts presented in these financial statements are stated in thousands of Canadian dollars. 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 condensed 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 judgement 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 condensed 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”).

CEMATRIX CORPORATION

Notes to the Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2022, and 2021 (unaudited)
(in 000's Canadian Dollars)

3. Significant accounting judgements, estimates and assumptions

The preparation of condensed 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 condensed consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Judgements, estimates, and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

The key sources of these uncertainties that have a significant risk of causing material adjustment to the amounts recognized in the condensed consolidated financial statements are described in Note 3 of the audited consolidated financial statements for the year ended December 31, 2021. There have been no changes since that date.

4. Significant accounting policies

The significant accounting policies of the Company are outlined in Note 4 of the audited consolidated financial statements for the year ended December 31, 2021. Except for the following, there have been no changes since that date.

As a result of the Company's investment in Glavel Inc. (note 7), the Company has amended the accounting policy for Financial Instruments Classification as noted below.

Q) 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"). For long-term investments that are not held for trading, gains and losses will be recorded in profit or loss, unless, the Company has made an irrevocable election at the time of initial recognition to account for the investment at fair value through other comprehensive income. These investments in equity instruments or convertible debentures are subsequently measured at fair value, and gains or losses, including interest income or dividend income, are recognized in profit or loss. 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 one of the following occurs; (i) when its business model for managing those assets changes; (ii) the Company's investment has significant influence over the associate when it holds equity securities giving it the power to participate in the financial and operating policy decisions of the investee, without having control or joint control over those policies. Financial liabilities are not reclassified.

CEMATRIX CORPORATION
Notes to the Condensed Consolidated Financial Statements

*For the three and six months ended June 30, 2022, and 2021 (unaudited)
(in 000's Canadian Dollars)*

5. Trade and other receivables

Trade and other receivables consist of the following components as at June 30, 2022, and December 31, 2021:

	2022	2021
Trade receivables	\$ 3,109	\$ 3,954
Holdbacks	881	1,044
Other receivables	7	20
Allowance for doubtful accounts	(79)	(107)
	\$ 3,918	\$ 4,911

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. Holdbacks are generally collectible forty-five days after completion of the work performed by the Company, however, holdbacks can be outstanding much longer, if the holdback release is tied to the completion of the entire project by the general contractor. The Company is normally a subcontractor to the general contractor and only completes a portion of the total work to be completed by the general contractor and accordingly certain holdbacks can be outstanding for up to a year or more.

The aging of the trade receivables were as follows as at June 30, 2022, and December 31, 2021:

	2022	2021
1-30 days	\$ 2,172	\$ 2,841
31-60 days	237	513
61-90 days	590	465
Greater than 90 days	110	135
	\$ 3,109	\$ 3,954

In determining the recoverable amount of 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.

6. Inventory

Inventory consists of the following components as at June 30, 2022, and December 31, 2021:

	2022	2021
Raw materials (principally foaming agent)	\$ 882	\$ 718
	\$ 882	\$ 718

Inventory expensed as part of cost of sales was \$120 and \$369 for the three and six months ended June 30, 2022, respectively (\$132 and \$323 for the same periods in 2021).

CEMATRIX CORPORATION
Notes to the Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2022, and 2021 (unaudited)
(in 000's Canadian Dollars)

7. Long-term investments

Long-term investments consist of the following components as at June 30, 2022, and December 31, 2021:

	2022	2021
Equity investment in Glavel	\$ 1,367	\$ -
Convertible Debentures investment in Glavel	805	-
	\$ 2,172	\$ -

(a) Equity investment in Glavel Inc.

	June 30, 2022			December 31, 2021		
	Number of Shares	Cost	Fair Value	Number of Shares	Cost	Fair Value
Glavel Inc	501,579	\$1,367	\$1,367	0	\$0	\$0

On February 15, 2022, the Company acquired 265,061 shares of Glavel Inc. ("Glavel") at a price of USD \$2.114 for a total investment of USD \$560 or CAD \$712. Glavel is a company that manufactures an ultra-lightweight fill material made from recycled glass.

On April 11, 2022, the Company acquired an additional 236,518 shares of Glavel at a price of USD \$2.114 for an increase in investment of USD \$500 or CAD \$655. As the Company's equity investment represents less than 20% ownership, the Company classifies the Glavel shares as an investment at fair value through profit or loss.

(b) Convertible debentures investment in Glavel Inc.

	June 30, 2022			December 31, 2021		
	Amount	Cost	Fair Value	Amount	Cost	Fair Value
Glavel Inc	625,000	\$805	\$805	0	\$0	\$0

On April 11, 2022, the Company loaned Glavel USD \$625 or CAD \$805 in the form of convertible debentures. The convertible debenture carries an interest rate of 8% and matures on April 29, 2025. The convertible debentures are convertible into a fixed amount of common shares of Glavel at a price of USD \$2.114 or 295,649 common shares.

CEMATRIX CORPORATION
Notes to the Condensed Consolidated Financial Statements

*For the three and six months ended June 30, 2022, and 2021 (unaudited)
(in 000's Canadian Dollars)*

8. Goodwill and intangible assets

Goodwill and intangibles consist of the following components as at June 30, 2022, and December 31, 2021:

	Indefinite lives intangible assets	Product testing costs	Sales backlog	Goodwill	Total
Cost					
At December 31, 2021	465	303	2,260	5,754	8,782
Additions	-	-	-	-	-
Exchange difference	-	-	27	95	122
At June 30, 2022	465	303	2,287	5,849	8,904
Accumulated amortization					
At December 31, 2021	(465)	(303)	(2,260)	-	(3,028)
Amortization	-	-	-	-	-
Exchange difference	-	-	(27)	-	(27)
At June 30, 2022	(465)	(303)	(2,287)	-	(3,055)
Net book value					
At June 30, 2022	-	-	-	5,849	5,849
Cost					
At December 31, 2020	465	302	2,267	5,779	8,813
Additions	-	1	-	-	1
Exchange difference	-	-	(7)	(25)	(32)
At December 31, 2021	465	303	2,260	5,754	8,782
Accumulated amortization					
At December 31, 2020	-	-	(1,539)	-	(1,539)
Amortization	-	-	(718)	-	(718)
Impairment	(465)	(303)	-	-	(768)
Exchange difference	-	-	(3)	-	(3)
At December 31, 2021	(465)	(303)	(2,260)	-	(3,028)
Net book value					
At December 31, 2021	-	-	-	5,754	5,754

The intangible assets with indefinite lives include foaming agent technology, process licenses and trademarks. The foaming agent technology relates to the cost of obtaining a foaming agent formula which is used in the production of cellular concrete. The process licenses relate to the cost of obtaining a mechanical process patent which the Company believes could enhance the production of its cellular concrete although the Company has not pursued this opportunity to date. The process is protected by the patent which is registered in the U.S. The trademarks relate to cost of registering certain trademarks in both Canada and the U.S. These trademarks are renewed as required for a nominal cost. Due to the age of the assets and lack of commercial progress with respect to the assets, Management assessed all of the indefinite life intangible assets as impaired at the end of 2021.

CEMATRIX CORPORATION

Notes to the Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2022, and 2021 (unaudited)
(in 000's Canadian Dollars)

8. Goodwill and intangible assets (continued)

Product Testing Costs

Product testing costs relate to third party testing and verification of certain qualities of the Company's products. Management assessed the value of the product testing costs and determined that the fair value was indeterminable and the value in use was nil.

Sales Backlog

The sales backlog intangible assets were created as a result of the acquisitions of MOS and PIGCO. The sales backlog intangible assets acquired by the Company in the MOS and PIGCO acquisitions were fully amortized as of December 31, 2021.

Goodwill

Goodwill was created as a result of the MOS acquisition and arises principally from the ability to leverage the larger base of operations, the assembled workforce, future growth and the potential to realize synergies in the form of cost savings.

9. Bank operating loan and restricted cash

CWB Credit Facility

CEMATRIX's wholly owned subsidiary, CEMATRIX (Canada) Inc. entered into a financing arrangement with the Canadian Western Bank ("CWB") which provides a \$1,500 demand operating loan (the "Loan"). The Loan bore interest at an amount equal to 2% above the CWB's prime lending rate and was secured by a general security agreement providing a first secured interest on the receivables and inventory of CEMATRIX (Canada) Inc. The Loan was further guaranteed by the Company with a general security agreement providing a first secured interest on all present and after acquired property of the Company. Under the terms of the Loan, the CWB would advance up to \$1,500 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). Based on these terms the actual Loan availability on December 31, 2021, was \$1,496 of which \$nil was outstanding.

The Loan contained quarterly covenants for consolidated cash flow coverage ratio, consolidated debt to tangible net worth ratio, and consolidated current ratio. At December 31, 2021, 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.

In February 2022, the Company cancelled the credit facility with the CWB.

CIBC Credit Facility

CEMATRIX has entered into a financing arrangement with the Canadian Imperial Bank of Commerce (the "Bank" or "CIBC") which provides a \$5,000 asset-based credit facility (the "Credit Facility"). The Credit Facility bears interest at an amount equal to 1.5% above the Bank's prime lending rate, which is currently at 3.2% and is secured by a general security agreement providing a first secured interest on the receivables and inventory of CEMATRIX (Canada) Inc, MOS, and PIGCO. The Credit Facility is further guaranteed by the Company with a general security agreement providing a first secured interest on all present and after acquired property of the Company.

Under the terms of the Credit Facility, the Bank will advance up to \$5,000 based on 75% of trade receivables less than ninety days outstanding at the end of each month and 50% of inventories. The actual availability of the Credit Facility on June 30, 2022, was \$2,375 of which \$nil was outstanding (\$nil – December 31, 2021).

The Credit Facility contains three financial covenants. The three financial covenants are the current ratio, debt to EBITDA ratio, and debt service coverage ratio. The current ratio and debt to EBITDA ratios are tested quarterly and the debt service coverage ratio is tested annually. As at June 30, 2022, CEMATRIX was in compliance with the financial covenants that are tested quarterly.

CEMATRIX CORPORATION
Notes to the Condensed Consolidated Financial Statements

*For the three and six months ended June 30, 2022, and 2021 (unaudited)
(in 000's Canadian Dollars)*

9. Bank operating loan and restricted cash (continued)

Restricted cash

In December 2020, the Company entered into an agreement with the Bank; whereby the Bank provided a letter of credit for an amount of \$207 to be held by a customer as security for a certain project. Under the terms of its prior Loan, 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. Under the terms of the new CIBC Credit Facility the Company is able to issue letters of credit without the requirement to place an equal amount as a pledged bank balance. As a result, the restricted cash was released back to the Company in March 2022.

The Company had an additional \$79 in restricted cash that was pledged in support of a corporate credit card program. The Company has cancelled that program and replaced it with a program that is secured by its CIBC Credit Facility. As a result, the restricted cash was released back to the Company in March 2022.

10. Trade and other payables

Trade and other payables consist of the following components as at June 30, 2022, and December 31, 2021:

		2022		2021
Trade payables	\$	1,525	\$	2,319
Accrued interest		22		18
Other accruals		239		690
Payroll remittance and goods and services tax		394		177
	\$	2,180	\$	3,204

11. Long-term debt

Long-term debt consists of the following components as at June 30, 2022, and December 31, 2021:

	Maturity	Interest rate		2022		2021
BDC financing						
Loan #4	August 1, 2026	Floating	\$	1,256	\$	1,236
Loan #5	December 1, 2025	Floating		2,406		2,367
				3,662		3,603
Less current portion				(891)		(877)
			\$	2,771	\$	2,726

CEMATRIX CORPORATION
Notes to the Condensed Consolidated Financial Statements

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11. 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:

		2022		2021
Long-term debt, beginning of the year	\$	3,603	\$	5,968
Repayment of long-term debt		-		(2,319)
		3,603		3,649
Effect of unrealized foreign exchange gain on income		98		(31)
Effect of unrealized foreign exchange gain on translation		(39)		(15)
Long-term debt, end of the period	\$	3,662	\$	3,603

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

Loan 1 – 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. The loan was fully drawn down in December 2016. The interest, payable monthly, was set at 3.86% above the BDC floating base rate. The loan was fully repaid in the first quarter of 2021.

Loan 2 – 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. The loan was fully drawn down in April 2019. The interest, payable monthly, was set at 1.85% above the BDC floating base rate. The loan was fully repaid in the first quarter of 2021.

Loan 3 – In March 2017, the Company's wholly-owned subsidiary, CEMATRIX (Canada) Inc., entered into an agreement with the BDC for a loan of \$100 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, payable monthly, was set at 1.00% above the BDC floating base rate. The loan was fully repaid in the first quarter of 2021.

Loan 4 – In May 2018 the Company entered into an agreement with the BDC for a loan of \$1,800 USD to fund a portion of the purchase price of the MOS acquisition. The interest, which is currently 7.25% and is payable monthly, is set at 1.60% above the BDC floating USD base rate of 5.65%. The loan is repayable over eight years, with seasonal payments of principal required. Payments of principal of \$38 USD were required from September to December 2018. Payments of principal of \$38 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 dollar equivalent of this loan was \$2,333. On June 30, 2022, the Canadian dollar equivalent of this was \$1,256. The difference being \$1,076 which is due to principal repayments of \$1,063 and unrealized foreign exchange gain of \$14 being recognized in the statement of loss and comprehensive loss.

Loan 5 – In October 2019, the Company's wholly-owned subsidiary, CEMATRIX (USA) Inc. entered into an agreement with the BDC for a loan of \$2,800 USD to fund the purchase price of the PIGCO acquisition. The interest, payable monthly, was initially set at 3.70% above the BDC floating USD base rate. Subsequently, in the first quarter of 2021, the interest rate was renegotiated to 1.60% above the BDC floating USD base rate and therefore, currently at 7.25%.

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11. Long term debt (continued)

The loan is repayable over six years, with seasonal payments of principal required. A principal repayment of \$78 USD is required from July to December from years 2020 to 2025. On October 1, 2019, the Canadian dollar equivalent of this loan was \$3,708. On June 30, 2022, the Canadian dollar equivalent of this was \$2,406. The difference being \$1,303, which is the combination of principal repayments of \$1,203 and unrealized foreign exchange gain of \$100 being recognized on the translation of foreign subsidiaries.

The Loans 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. The prepayment option is considered to be an embedded derivative with a nominal fair value as at March 31, 2022.

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.

The BDC Financing Loan 4 and Loan 5 have a consolidated fixed charge coverage ratio financial covenant which is tested annually. At December 31, 2021, 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, 2021.

Secured Debenture:

In February 2014, the Company issued a secured debenture for \$1,000 to an unrelated party. The interest, payable monthly was set at 9% per annum. The Company fully repaid the secured debenture during the first quarter of 2021.

12. Lease obligations

Lease obligations consist of the following components as at June 30, 2022, and December 31, 2021:

	2022	2021
Lease obligations, January 1	\$ 1,684	\$ 2,065
Additions	50	239
Lease payments (including interest)	(366)	(765)
Interest expense (note 17)	63	154
Foreign exchange	15	(9)
Value of lease obligation, end of period	1,446	1,684
Less current portion	(631)	(578)
Lease obligations, end of the period	\$ 815	\$ 1,106

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.

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13. 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 USD for the first 12 month period after May 31, 2018 and 65% of the EBITDA above \$500 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 fair value through profit or loss (“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 USD to the Vendor, ending September 30, 2023.

Earn-out liability consists of the following components as at June 30, 2022, and December 31, 2021:

	2022	2021
Balance, January 1	\$ -	\$ 2,128
Revaluation in the year	-	(132)
Addition	-	-
Payments	-	(2,047)
Interest (<i>note 17</i>)	-	29
Accretion expense (<i>note 17</i>)	-	53
Foreign exchange difference	-	(31)
Value of liability, end of the period	-	-
Less current portion	-	-
Earn-out liability, non-current	\$ -	\$ -

In the first quarter of 2021, the Company paid out Tranche 1 and 2 associated with the MOS acquisition and Tranche 1 associated with PIGCO acquisition. In the third quarter of 2021, the company paid out the last tranche associated with MOS acquisition. The Tranche 2 period in relation with the PIGCO acquisition was completed in the third quarter of 2021 and the EBITDA in PIGCO did not meet the threshold criteria as explained above resulting in no earnout expense for Tranche 2.

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14. Convertible debt

On April 22, 2020, the Company issued unsecured convertible debenture with a total principal amount of \$5,720 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 share 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 broker 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 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 broker 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.

Transaction costs of \$639 in cash, \$220 in additional debentures and 1,100,000 broker warrants valued at \$300 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 transaction cost in additional debentures was included with the principal offering for a total consideration of \$5,720. 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 broker 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 June 30, 2022, and December 31, 2021, the following assumptions were used for forced conversion feature:

	2022	2021
Estimated fair value per common share	\$0.0057	\$0.0075
Common share price	\$0.21	\$0.33
Risk-free interest rate	3.09%	0.95%
Expected life	10 months	16 months
Expected volatility in stock price	90.1%	70.4%

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14. Convertible debt (continued)

Convertible debenture consists of the following components as at June 30, 2022, and December 31, 2021:

	Host Debt Contract	Forced Conversion	Equity Feature	Total
At December 31, 2020	3,787	(314)	656	4,129
Interest expense (note 17)	301	-	-	301
Accretion expense (note 17)	252	-	-	252
Conversion – shares and warrants (net of tax)	(919)	28	(101)	(992)
Interest payment	(314)	-	-	(314)
Exercise of broker warrants	-	-	(23)	(23)
Fair value adjustment loss	-	259	-	259
At December 31, 2021	3,107	(27)	532	3,612
Interest expense (note 17)	142	-	-	142
Accretion expense (note 17)	184	-	-	184
Interest payment	(142)	-	-	(142)
Fair value adjustment loss	-	7	-	7
At June 30, 2022	3,291	(20)	532	3,803

Net proceeds of \$4,836 were received on the issuance of convertible debenture, which was equal to the gross amount of \$5,720 less: 1) cash transaction costs of \$639, which were allocated to all the components of the convertible debenture; 2) additional convertible debentures of \$220, 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 which were expensed immediately to profit or loss.

The following table summarizes the changes in convertible debenture and broker warrants units of the Company as at June 30, 2022, and December 31, 2021:

	Number Of Convertible Debenture Units	Amount	Number Of Broker Warrants Units	Amount
At December 31, 2020	12,187,500	\$ 4,875	991,250	\$ 270
Conversion – shares & warrants	(3,215,000)	(1,286)	(82,950)	(23)
At December 31, 2021	8,972,500	3,589	908,300	247
Conversion – shares & warrants	-	-	-	-
At June 30, 2022	8,972,500	3,589	908,300	247

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

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15. 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 six months ended June 30, 2022, and year ended December 31, 2021:

	2022		2021	
	Number of Shares	Amount (\$000's)	Number of Shares	Amount (\$000's)
Common shares, beginning of year	133,939,938	\$ 42,403	66,776,750	\$ 13,802
Common shares issued ⁽ⁱ⁾	-	-	30,363,204	11,445
Public offering, net of costs ⁽ⁱⁱ⁾	-	-	36,799,984	20,890
Reclassification of options	-	-	-	634
Reclassification of broker warrants	-	-	-	14
Reclassification of warrants – public offering ⁽ⁱⁱⁱ⁾	-	-	-	(5,666)
Reclassification of warrants	-	-	-	1,284
Common shares, end of the period	133,939,938	\$ 42,403	133,939,938	\$ 42,403

- i. In 2021, for gross proceeds of \$537 received, the Company issued 2,309,999 common shares on the exercise of employee stock options. The exercise price range was between \$0.20 and \$0.30.
- In 2021, for gross proceeds of \$3,610 received, the Company issued 11,464,521 common shares on the exercise of warrants and broker warrants. The exercise price range was between \$0.24 and \$0.30.
- In the second quarter of 2021, the convertible note issued in conjunction with the acquisition of MOS was converted into 13,373,684 common shares, with the convertible note liability balance of \$6,662 allocated to share capital upon conversion.
- The Company issued 3,215,000 common shares upon the exercise of convertible debentures. The principal amount of \$1,272 was converted and allocated to share capital and contributed surplus (net of transaction costs and tax) based on fair value assigned at the time of issuance. As a result, \$636 and \$334 was allocated to share capital and contributed surplus, respectively.
- ii. On March 18, 2021, the Company completed a public offering through a short-form prospectus raising \$23,000 in gross proceeds. The Offering was for 35,384,600 units at a price of \$0.65 per unit of the Company. Additionally, the lead agents were paid a corporate finance fee satisfied by the issuance of 1,415,384 units for a total of 36,799,984 units. Each unit consists of one common share of the Company and one-half of one common share purchase 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. As a result, the total number of warrants that were issued as part of this financing were 18,399,992.

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15. Share capital (continued)

In addition, the Company issued 2,830,768 broker warrants of the Company to the agents equal to 8% of the number of units issued under the Offering. Each broker warrant entitles the holder to acquire one unit of the Company at \$0.65 until March 18, 2023. The broker warrants and warrants mentioned above were valued at \$5,666 in total, which was reclassified to contributed surplus. The fair value per share purchase warrant was determined using the assumptions mentioned in the warrants section below.

The Company paid the agents a cash commission equal to 7% of the gross proceeds of the Offering, amounting to \$1,610 and incurred \$500 in other transaction costs, resulting in net proceeds of \$20,890.

(c) Share Purchase Warrants

The following table reflects the issuance of warrants for the six months ended June 30, 2022, and year ended December 31, 2021, which is recorded in contributed surplus:

	2022		2021	
	Number of Warrants	Weighted average price	Number of Warrants	Weighted average price
Warrants, beginning of year	20,067,717	\$0.779	11,545,321	\$0.310
Public offering	-	-	18,399,992	\$0.810
Convertible debenture conversion	-	-	1,607,500	\$0.450
Broker warrants conversion	-	-	41,475	\$0.450
Warrants expired	-	-	(145,000)	\$0.300
Warrants exercised	-	-	(11,381,571)	\$0.314
Warrants, end of the period	20,067,717	\$0.779	20,067,717	\$0.779

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	March 18, 2021
Estimated fair value per share purchase warrant	\$0.10	\$0.10	\$0.27
Common share price	\$0.20	\$0.20	\$0.63
Exercise price	\$0.30	\$0.30	\$0.65
Risk-free interest rate	1.38%	1.38%	0.27%
Expected life	2 years	2 years	2 years
Expected volatility in stock price	111.0%	112.0%	81%
Expected annual dividend yield	nil	nil	nil

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15. Share capital (continued)

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	\$0.21	\$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

(d) Broker Warrants Units

The following table reflects the issuance of broker warrants units for the six months ended June 30, 2022, and year ended December 31, 2021:

	2022		2021	
	Number of Units	Weighted average price	Number of Units	Weighted average price
Broker warrants, beginning of year	3,739,068	\$0.589	991,250	\$0.400
Public offering	-	-	2,830,768	\$0.650
Broker warrants exercised	-	-	(82,950)	\$0.400
Broker warrants, end of the period	3,739,068	\$0.589	3,739,068	\$0.589

16. Cost of sales

Cost of sales consists of the following components for the three and six months ended June 30, 2022, and 2021:

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Manufacture of cellular concrete				
Materials	\$ 1,925	\$ 1,974	\$ 4,504	\$ 4,149
Direct labour	1,089	900	2,368	1,857
Variable expenses	691	520	1,666	1,060
Fixed overhead	8	53	15	99
Depreciation	361	362	713	722
	\$ 4,074	\$ 3,809	\$ 9,266	\$ 7,887

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17. Finance costs

The finance costs incurred for the three and six months ended June 30, 2022, and 2021 are as follows:

	<i>Three months ended June 30</i>		<i>Six months ended June 30</i>	
	2022	2021	2022	2021
Interest				
BDC financings (note 11)	\$ 62	\$ 66	\$ 117	\$ 159
Secured debenture (note 11)	-	-	-	19
Lease obligations (note 12)	26	38	63	85
Earn-out liability (note 13)	-	-	-	35
Convertible debt (note 14)	73	116	142	259
Other	-	8	-	40
	\$ 161	\$ 228	\$ 322	\$ 597

The accretion costs incurred for the three and six months ended June 30, 2022, and 2021 are as follows:

	<i>Three months ended June 30</i>		<i>Six months ended June 30</i>	
	2022	2021	2022	2021
Accretion				
Earn-out liability (note 13)	\$ -	\$ 14	\$ -	\$ 53
Convertible debt (note 14)	94	88	184	130
	\$ 94	\$ 102	\$ 184	\$ 183

18. Other income (expenses)

Other income (expenses) for the three and six months ended June 30, 2022, and 2021 consists of the following:

	<i>Three months ended June 30</i>		<i>Six months ended June 30</i>	
	2022	2021	2022	2021
Foreign exchange gains (losses)	\$ 332	\$ 137	\$ 123	\$ 222
Government subsidies	-	130	-	228
Interest Income	-	-	100	-
Other	(7)	(37)	62	(1)
	\$ 325	\$ 230	\$ 285	\$ 449

The Company received wage and rent subsidies of \$nil (2021 - \$130) and \$nil (2021 - \$228) for the three and six months ended June 30, 2022, respectively, as part of the various COVID-19 relief programs initiated by the Canadian Federal Government.

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19. Loss per common share

The number of common shares included in the computation of basic and diluted loss per common share for the three and six months ended June 30, 2022, and 2021 is as follows:

	<i>Three months ended June 30</i>		<i>Six months ended June 30</i>	
	2022	2021	2022	2021
Weighted average common shares outstanding - basic	133,939,938	116,255,013	133,939,938	97,632,046
Effect of dilutive instruments	-	-	-	-
	133,939,938	116,255,013	133,939,938	97,632,046

The dilutive securities for the three and six months ended June 30, 2022, and 2021 have no dilutive effect as the Company incurred losses in these periods.

20. Stock-based compensation

Stock option grants

The Company has an Omnibus Equity Incentive Plan ("OEI Plan") for the issue of up to 10% of the issued and outstanding common shares of the Company. Stock options are part of the OEI Plan. 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 grants 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 six months ended June 30, 2022, and year ended December 31, 2021:

	2022		2021	
	Number of Options	Weighted average price	Number of Options	Weighted average price
Outstanding, beginning of period	4,075,000	\$0.355	4,845,000	\$0.266
Granted	1,145,000	\$0.238	2,015,000	\$0.455
Exercised	-	-	(2,310,000)	\$0.235
Forfeited	(66,667)	\$0.570	(271,666)	\$0.482
Expired	(500,000)	\$0.238	(203,334)	\$0.227
Outstanding, end of period	4,653,333	\$0.335	4,075,000	\$0.355
Exercisable, end of the period	1,321,666	\$0.279	1,610,000	\$0.355

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20. Stock-based compensation (continued)

The following table summarizes the stock options to acquire common shares outstanding as at June 30, 2022:

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	960,000	510,000	3.08	\$0.41	\$0.20
\$0.23 - \$0.39	2,175,000	600,000	1.60	\$0.20	\$0.24
\$0.40 - \$0.59	1,518,333	211,666	2.85	\$0.48	\$0.58
\$0.19 - \$0.59	4,653,333	1,321,666	2.79	\$0.34	\$0.28

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:

	2022	2021
Estimated fair value per option	\$0.15	\$0.41
Weighted average common share price	\$0.21	\$0.57
Risk-free interest rate	3.09%	0.24%
Expected life	3-5 years	5 years
Expected volatility in stock price	90%	95%
Expected annual dividend yield	nil	nil
Estimated forfeiture rate	nil	nil

Restricted share unit grants

The Company has an Omnibus Equity Incentive Plan (“OEI Plan”) for the issue of up to 10% of the issued and outstanding common shares of the Company. Restricted Share Units (“RSU’s”) are part of the OEI Plan. In the second quarter of 2022 and 2021, the Company issued RSU’s under the OEI plan. Subject to the specific provisions of the RSU plan, eligibility, vesting period, terms of the RSUs and the number of RSUs granted are to be determined by the Board of Directors at the time of the grant. The purpose of the RSU grants 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 the Company’s outstanding RSUs:

<i>(Number of RSUs)</i>	2022	2021
Outstanding, beginning of year	184,212	-
Granted	805,255	210,528
Forfeited	-	(26,316)
Outstanding, end of period	989,467	184,212

The fair value of each RSU granted was determined by using the Company’s share price on the grant date. The estimated fair value of the RSUs granted is being recognized as an expense over the three years vesting period of the RSUs.

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20. Stock-based compensation (continued)

Stock Based Compensation

Stock-based compensation for the three and six months ended June 30, 2022, of \$165 and \$294, respectively (2021 – \$48 and \$90, respectively) was recognized in the consolidated statement of loss and comprehensive loss with an offsetting amount charged to contributed surplus. Stock-based compensation has no impact on the Company's cash position.

21. 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 three and six months ended June 30, 2022, and 2021:

	<i>Three months ended June 30</i>		<i>Six months ended June 30</i>	
	2022	2021	2022	2021
Trade and other receivables	\$ 475	\$ 107	\$ 1,046	\$ 1,102
Inventory	(193)	(88)	(160)	(50)
Prepaid expenses and deposits	148	69	259	79
Trade and other payables	(1,119)	(240)	(1,057)	(399)
	\$ (689)	\$ (152)	\$ 88	\$ 732

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22. 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's 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 their 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.

The fair value of the long-term investment approximates its carrying value as the purchase price is a market rate for other investors participating in the private placement.

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.

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

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

Level 2 – Pricing inputs are other than quoted prices in active markets included in level 1. Prices in level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. The long-term investments (note 7), embedded derivatives related to the forced conversion, prepayment and conversion features on the convertible debt are measured based on level 2 (note 14).

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 13).

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

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22. Financial instruments and risk management (continued)

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 \$3,662 at June 30, 2022, are subject to floating market rates. Based on the floating rate debt outstanding, a 1% increase/decrease in interest rates would result in an increase/decrease in net loss attributable to common shareholders of approximately \$37 excluding the effect of income taxes.

(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 June 30, 2022, the Company had \$13,826 of cash and cash equivalents (December 31, 2021 - \$19,945) and \$nil in restricted cash (December 31, 2021 - \$286).

(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.

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22. Financial instruments and risk management (continued)

The table below summarizes the maturity profile of the Company's financial liabilities at June 30, 2022, and December 31, 2021, based on contractual undiscounted payments:

	Less than 1 year	1 to 2 years	2 to 6 years	Total
As at June 30, 2022				
Trade and other payables	\$ 2,180	\$ -	\$ -	\$ 2,180
Long-term debt	891	864	1,907	3,662
Lease obligations	631	717	98	1,446
Convertible debt	3,291	-	-	3,291
	\$ 6,993	\$ 1,581	\$ 2,005	\$ 10,579
As at December 31, 2021				
Trade and other payables	\$ 3,204	\$ -	\$ -	\$ 3,204
Long-term debt	877	877	1,849	3,603
Lease obligations	578	932	174	1,684
Convertible debt	-	3,107	-	3,107
	\$ 4,659	\$ 4,916	\$ 2,023	\$ 11,598

(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 subsidiaries which are predominantly in USD. The Company does not hedge these items as the timing of related transactions is not certain. However, the management mitigates foreign exchange risk by monitoring exchange rate trends and forecasted economic conditions.

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*For the three and six months ended June 30, 2022, and 2021 (unaudited)
(in 000's Canadian Dollars)*

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

As at June 30, 2022, and December 31, 2021, the following balances are denominated in USD:

<i>(in 000's US Dollars)</i>	2022	2021
Cash and cash equivalents	\$ 897	\$ 745
Trade and other receivables	\$ 1,671	\$ 2,046
Prepaid expenses and deposits	\$ 106	\$ 192
Long-term investments	\$ 1,685	\$ -
Trade and other payables	\$ 1,137	\$ 1,440
Long term debt	\$ 1,866	\$ 1,866
Lease obligations	\$ 728	\$ 874

The Company's primary foreign exchange sensitivity is in relation to movements of the USD against the Canadian dollar. Based on USD balances as at June 30, 2022, a 1% increase/decrease of the USD against the Canadian dollar would result in an increase/decrease in net loss of approximately \$8.

23. 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 the 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 six months ended June 30, 2022. The Company is subject to externally imposed financial covenants with its bank operating loan and long-term debt loans with the BDC.

The total capitalization as at June 30, 2022, and December 31, 2021, is outlined below:

	2022	2021
Long term debt <i>(note 11)</i>	\$ 3,662	\$ 3,603
Lease obligations <i>(note 12)</i>	1,446	1,684
Convertible debt – host debt and derivative liability <i>(note 14)</i>	3,291	3,107
Total debt	8,399	8,394
Shareholders' equity	28,132	31,581
	\$ 36,531	\$ 39,975

CEMATRIX CORPORATION
Notes to the Condensed Consolidated Financial Statements

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24. 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 three and six months ended June 30, 2022, and 2021 and the total non-current assets attributable to the Company's geographical segments as at June 30, 2022, and December 31, 2021:

	<i>Three months ended June 30</i>		<i>Six months ended June 30</i>	
	2022	2021	2022	2021
Sales to external customers				
Canada	\$ 1,357	\$ 1,659	\$ 2,617	\$ 2,581
United States	2,665	2,358	6,528	5,945
	\$ 4,022	\$ 4,017	\$ 9,145	\$ 8,526
<hr/>				
			2022	2021
Total non-current assets				
Canada		\$	3,050	\$ 2,909
U.S.			17,443	15,043
		\$	20,493	\$ 17,952