CEMATRIX CORPORATION
Management's Discussion and Analysis
Three and Nine Months Ended September 30, 2020

Date Completed: November 4, 2020

CEMATRIX CORPORATION
www.cematrix.com

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

The following is the management's discussion and analysis ("MD&A") of CEMATRIX Corporation ("CEMATRIX" or the "Company") for the three and nine months ended September 30, 2020. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements of the Company for the three and nine months ended September 30, 2020 (the "Interim Consolidated Financial Statements") and the related notes thereto and the audited consolidated financial statements and MD&A of the Company for the year ended December 31, 2019 and related notes thereto. The Interim Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards. All dollar figures included therein and in this MD&A are in Canadian dollars.

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

The Audit Committee of the Company reviewed and recommended for approval by the Board of Directors of the Company the Interim Consolidated Financial Statements and MD&A for the three and nine months ended September 30, 2020. The Board of Directors of the Company reviewed and approved the Interim Consolidated Financial Statements and MD&A on November 4, 2020.

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Forward Looking Statements

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

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

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

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

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

A. Purpose of the Company's MD&A

The purpose of this MD&A is to provide a narrative explanation, through the eyes of management, to assist the reader in understanding the Company's performance for the three and nine months ended September 30, 2020, the Company's financial condition as at September 30, 2020 and its future prospects.

B. Highlights

COVID 19 ("the Pandemic")

The Pandemic has affected everyone since it began to have its affect in Canada in late February/early March. There is of course the human side, as well as the business side of the pandemic.

From a human perspective most of the CEMATRIX projects continued throughout North America, even in what were known as locked down states such as New York, California and Texas in the early weeks and months. Fortunately, most of our staff have stayed healthy and COVID free during the third quarter and to date and the members of the CEMATRIX family that did become infected from a outside non business source have all recovered and our doing well. All of our staff are committed to staying safe within this environment and have jointly developed Company safety policies to reduce the risk of infection both at each of our office/warehouse locations and on each site that we work on. This extends to our family homes, as well. Our customers are also committed to keeping their staff, our staff and each of our families safe on all construction sites.

From a business perspective, initially the affect on CEMATRIX sales was minimal, but as each week/month passed and projects kept being delayed from one week to the next, it became evident that its effect on CEMATRIX sales could be significant. To date, we have had close to $8 million in projects delayed into next year because of the pandemic. Other expected projects have not even gone forward to the final engineering or construction stage because of this ongoing situation.

Our Canadian sales have been most affected because of the more cautious way Canadians and their governments have approached the pandemic. Canadian sales to date are down more than 50% from the previous year as our customers are having a difficult time adapting to this COVID environment, including the cost and time cost of moving projects forward. Further to the in-year delays, approximately 45% of total Canadian contracted or verbally awarded sales have been pushed into next year. In the U.S. only 15% of the same total has been pushed into 2021, again reflecting the different government approaches to the pandemic.

Its important to note that no sales have been cancelled due to the pandemic, only delayed.

Financial Review

Third Quarter

Even with continued project delays related to the COVID Pandemic, revenue was a record $10,879,967 in the third quarter of 2020 an increase of $3,257,570 or 43% as compared to the same period in 2019. The acquisition of Pacific International Grout Co ("PIGCO") closed on October 1, 2019 and contributed $4,693,240 of the revenue earned in the third quarter of 2020. MixOnSite ("MOS"), the other recent US acquisition also contributed $4,138,696 in sales for the quarter, while Canadian sales amounted to $2,048,031 for the quarter. The Canadian operating company has been the most adversely affected from the pandemic, as noted above.

These revenues, net of the costs incurred to produce them, resulted in a Gross Margin of $2,953,164 in the third quarter of 2020, compared to $2,362,270 in the third quarter of 2019, an increase of $590,894 or 25%. In addition, Gross Margin Percentage decreased to 27% in the third quarter of 2020 compared to 31% in the third quarter of 2019. The decrease in Gross Margin Percentage is largely related to the fixed costs in the Canadian company not being sufficiently absorbed by lower than anticipated sales. Further complicating the issue in Canada has been the need to retain the experienced trained Canadian operating staff, even though sales are significantly lower than anticipated. In addition, we have been unable to utilize staff in other locations in Canada because of the inability to fly staff from region to region during the pandemic.

The margins generated on the additional revenues earned in the third quarter of 2020 sufficiently offset costs incurred before other non-cash and acquisition related expenses and as such, resulted in Income before other items of $481,529 as compared to an Income before other items of $196,207 in the third quarter of 2019.

EBITDA in the third quarter of 2020 was a record $1,868,577 before the PIGCO earnout of $576,710, an increase of $894,735, or 92% compared to an EBITDA of $973,842 in the third quarter of 2019.

Year To Date

Revenue was record $22,177,682 in the first nine months of 2020, an increase of $4,921,016 or 29% compared to the first nine months of 2019. The revenue generated from the PIGCO acquisition amounted to $9,545,392. In addition, MOS contributed $8,730,520 in sales for the first nine months, while Canadian sales amounted to $3,901,770 to date. The Canadian operating company has been the most adversely affected from the pandemic, as noted above.

These revenues, net of the costs incurred to produce them, resulted in a Gross Margin of $5,234,797 in the first nine months of 2020, compared to $4,722,033 in the first nine months of 2019. Gross Margin Percentage was 24% in the first nine months of 2020 compared to 27% in the first nine months of 2019. The decrease in Gross Margin Percentage is due to the same reasons mentioned above for the quarter.

The margins generated on the additional revenues earned in the nine months ended September 30, 2020 were not sufficient to offset the costs incurred before other non-cash and acquisition related expenses and as such, resulted in Loss before other items of $1,363,741 as compared to an Income before other items of $55,394 in the same period in 2019. Of note $581,549 of the 2020 loss to date was the result of the PIGCO earnout for their business acquisition year ended October 31, 2020.

Year to date the EBITDA was a record $2,022,959 before the PIGCO earnout of $576,710, an increase of $273,144, or 16% compared to an EBITDA of $1,749,815 for the same period in 2019.

Sales Pipeline and Guidance Update

As previously mentioned, the Company has seen some delays in projects due to the pandemic. However, the Company's consolidated sales pipeline continues to grow and now exceeds $379.5 million. In addition, our current backlog (including current years sales) now exceeds $86.2 million, up from the $82.2 million reported on September 8, 2020, of which $55.1 million relates to 2021 and beyond. Although, the greater growth is in the U.S. pipeline, we are seeing several new Canadian projects come out for design and bid as well, a couple of which are currently scheduled to commence during the fourth quarter of 2020.

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

Although, the Company is landing more and more projects each day, given the current COVID-19 environment and the resulting delays in projects, we are taking a conservative point of view and believe we will come in at the lower end of our prior 2020 revenue guidance with lower EBITDA. There is no question the pandemic is having a short-term impact on our ability to accurately predict project timing for the balance of this year and possibly early next year.

Awarded Significant Infrastructure Project

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

Financings

1. Debenture – Closed an oversubscribed $5.7 million, 8% convertible debenture Financing on April 22, 2020;
2. Warrants and Options – For the first nine ended September 30, 2020, 4,674,456 warrants, 108,750 broker warrants and 200,000 options were exercised, bringing in an additional $1,646,497 for general working capital purposes including operating debt reduction.

C. Operations and Overall Performance

Results of Operations

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

	Three Months Ended September 30		
	2020	2019	Change
Revenue	**$ 10,879,967**	$ 7,622,397	$ 3,257,570
Gross margin	**$ 2,953,164**	$ 2,362,270	$ 590,894
Operating expenses	**(1,569,308)**	(1,678,940)	109,632
Operating income	**1,383,856**	683,330	700,526
Non-cash stock based compensation	**(21,051)**	(231,758)	210,707
Finance costs	**(408,449)**	(221,848)	(186,601)
Other expense	**(472,827)**	(33,517)	(439,310)
Income before other items	**481,529**	196,207	285,322
Amortization of intangibles	**(190,566)**	(122,061)	(68,505)
Acquisition costs	**-**	(280,824)	280,824
Accretion costs	**(177,884)**	(98,520)	(79,364)
Revaluation of earn-out liability	**-**	318,734	(318,734)
Non-cash fair value of derivatives	**180,255**	(202,203)	382,458
Income (loss) before income taxes	**293,334**	(188,667)	482,001
Provision of deferred taxes	**(217,809)**	(103,864)	(113,945)
Provision of current taxes	**(904)**	(979)	75
Net Income (loss) attributable to the common shareholder	**74,621**	(293,510)	368,131
Unrealized foreign exchange (loss) on translation of foreign subsidiaries	**(234,947)**	67,319	(302,266)
Comprehensive loss	**$ (160,326)**	$ (226,191)	**$** 65,865
Fully diluted loss per common share	**$ (0.000)**	$ (0.006)	$ 0.006

Revenue was $10,879,967 in the third quarter of 2020 compared to $7,622,397 in the third quarter of 2019 an increase or 43% or $3,257,570. The acquisition of Pacific International Grout Co ("PIGCO") closed on October 1, 2019, contributed $4,693,240 of the revenue earned in the third quarter of 2020, which was offset by a decline in revenue in Canada. In addition, MOS, contributed $4,138,696 in sales for the quarter, while Canadian sales amounted to $2,048,031 for the quarter. The Canadian sales decline was mainly due to deferral of a number of projects to the last quarter of the year or next year, as a result of COVID-19.

Gross Margin was $2,953,164 in the third quarter of 2020, an increase of $590,894 or 25% when compared to the third quarter of 2019. As a percentage of revenues, the Gross Margin Percentage was 27% compared to 31% in 2019. The decrease in Gross Margin Percentage is largely related to the fixed costs in the Canadian company not being sufficiently absorbed by the lower than anticipated sales. Further complicating the issue in Canada has been the need to retain the experienced trained Canadian operating staff, even though sales are significantly lower than anticipated. In addition, we have been unable to utilize staff in other locations in Canada because of the inability to fly staff from region to region during the pandemic.

Operating expenses were lower by $109,632 or 7% mainly due to the aggregate of the following:

- Bad debt decreased by $425,474 due to the absence of a bad debt provision recorded in the prior year;
- Travel and business development decreased by $44,121 due to lower costs associated with management sales, business and investor relations travel;
- General office expense decreased by $40,494 in the current period mainly due to lower rent and other overhead costs;
- Addition of PIGCO operating expenses of $316,580;
- Salaries, benefits and commissions increased by $50,901, as a result of temporary labour and an additional full-time employee;
- Insurance costs increased $17,895 as a result of premium increases;
- Investor relations and consulting costs increased $10,658 in support of the convertible debenture financing and the growth of the company;
- Legal fees increased by $9,688 on general corporate matters;

Non-cash stock based compensation expense was $21,051 in the third quarter of 2020 compared to $231,758 in the third quarter of 2019. The decrease of $210,707 is largely attributed to the absence of an extension of 1,925,000 previously issued stock options by two years in the third quarter of 2019.

Finance costs were $408,449 in the third quarter of 2020 compared to $221,848 in the same period in 2019, an increase of $186,601. The increase can be attributed to the $5.7 million unsecured convertible debenture financing which closed on April 22, 2020 and financing costs associated with the PIGCO acquisition. The new convertible debenture bears interest at a rate of 8% per year, payable semi-annually with a maturity date of April 22, 2023. The convertible debenture resulted in additional interest of $114,764 in the third quarter of 2020. The cash component of the PIGCO acquisition was financed entirely with a $2,800,000 USD BDC loan, resulting in interest of $74,087 in the third quarter of 2020.

Other expense was $472,827 in the third quarter of 2020 compared to an expense of $33,517 in the third quarter of 2019. The variance of $439,310 was largely due to $576,710 being recorded on the PIGCO earn-out for the October 1, 2019 to September 30, 2020 period. This was offset by a $116,629 unrealized foreign exchange gain which is caused by swings in foreign exchange rates on the following USD denominated liabilities: USD BDC Loan of $45,096 and convertible note of $70,184. As the Canadian dollar strengthened to the USD, the value of these liabilities decreased, which gives rise to an unrealized foreign exchange gain. The opposite effect occurred in the second quarter of 2019 resulting in a foreign exchange loss.

Amortization of intangibles was $190,566 in the third quarter of 2020 compared to $122,061 in the third quarter of 2019. The expense originated from the acquisitions of MOS and PIGCO where intangible assets of $638,879 and $1,705,641 were attributed to the value of the sales backlog on the business combination. These sales backlogs are being amortized into income over the period June 1, 2018 to September 30, 2019 for the MOS sales backlog and October 1, 2019 to December 31, 2021 for the PIGCO sales backlog.

Acquisition costs in the prior year period were $280,824 and relate to the acquisition of PIGCO which closed on October 1, 2019. There were no acquisition costs in the current period.

Accretion costs were $177,884 in the third quarter of 2020 compared to $98,520 for the same period in 2019. Accretion expense on the host debt contract of the new convertible debenture was $106,445, accretion relating to the remaining tranches of the earn-out liability was $46,950and accretion on the host debt contract of the convertible note was $24,489. Accretion on the earn-out liability and convertible note originated from the acquisition of MOS and were originally recorded at a discount. Accretion will end at the maturity date of these liabilities, which is May 31, 2021. The new convertible debenture was issued April 22, 2020 and has a maturity date of April 22, 2023.

There was no revaluation adjustment required for the MOS earn-out liability in the third quarter of 2020. In 2019, the non-cash gain of $318,734 was in relation to first 12-month period ending May 31, 2019 of the MOS earn-out liability.

The convertible note issued upon acquisition of MOS was trifurcated into the host debt contract and conversion and prepayment features, both of which are accounted for as derivatives and revaluated at every reporting period. Based upon the black-scholes option pricing model, the fair value of the conversion and prepayment features of the convertible note increased by a net of $150,144 in the third quarter of 2020 resulting in a gain for the same amount compared to a decrease of $202,203 in the third quarter of 2019 resulting in a loss in the third quarter of 2019. The convertible debenture, which was issued in April 2020 was trifurcated into a host debt contract, prepayment and equity features, of which the prepayment feature is accounted for as a derivative and revaluated at every reporting period. Based upon the modified black-scholes option pricing model, the fair value of the prepayment feature of the convertible debenture increased by $30,111 in the third quarter of 2020, resulting in a gain for the same amount.

Unrealized foreign exchange gains and losses on the translation of foreign subsidiaries are recognized through other comprehensive income. MOS, PIGCO and Cematrix (USA) Inc. have a USD functional currency and as the Canadian dollar strengthened relative to the USD, the value of these assets depreciated resulting in an unrealized foreign exchange loss of $234,947 in the third quarter of 2020. The opposite effect occurred in the third quarter of 2019 which resulted in an unrealized foreign exchange gain of $67,319.

Comparison of the Nine Months Ended September 30, 2020 and September 30, 2019

	Nine Months Ended September 30		
	2020	2019	Change
Revenue	**$ 22,177,682**	$ 17,256,666	$ 4,921,016
Gross margin	**$ 5,234,797**	$ 4,722,033	$ 512,764
Operating expenses	**(4,666,630)**	(3,828,604)	(838,026)
Operating income	**568,167**	893,429	(325,262)
Non-cash stock based compensation	**(93,154)**	(409,835)	316,681
Finance costs	**(1,162,840)**	(654,172)	(508,668)
Other income (expense)	**(675,914)**	225,972	(901,886)
Income (loss) before other items	**(1,363,741)**	55,394	(1,419,135)
Amortization of intangibles	**(581,265)**	(368,558)	(212,707)
Acquisition costs	**-**	(346,649)	346,649
Accretion costs	**(469,707)**	(388,165)	(81,542)
Revaluation of earn-out liability	**(110,972)**	464,915	(575,887)
Non-cash fair value of derivatives	**62,069**	(193,081)	255,150
Loss before income taxes	**(2,463,616)**	(776,144)	(1,687,472)
Provision of deferred taxes	**560,590**	(91,503)	652,093
Provision of current taxes	**(904)**	(90,052)	89,148
Net loss attributable to the common shareholder	**(1,903,930)**	(957,699)	(946,231)
Unrealized foreign exchange gain (loss) on translation of foreign subsidiaries	**170,816**	(261,158)	431,974
Comprehensive loss	**$ (1,733,114)**	$ (1,218,857)	$ (514,257)
Fully diluted loss per common share	**$ (0.031)**	$ (0.021)	$ (0.010)

Revenue in the first nine months of 2020 was $22,177,682 compared to $17,256,666 in the first nine months of 2019 an increase of 29% or $4,921,016. The revenue generated from the PIGCO acquisition was $9,545,392. In addition, MOS contributed $8,730,520 in sales for the first nine months, while Canadian sales amounted to $3,901,770 to date. The Canadian operating company has been the most adversely affected from the pandemic, as noted above for the quarter.

Gross Margin was $5,234,797 in the first nine months of 2020, an increase of $512,764, compared to a Gross Margin of $4,722,033 in the prior year period. As a percentage of revenues, the Gross Margin Percentage declined to 24% compared to 27% in 2019, mainly due to the same reasons mentioned above for the quarter.

Operating expenses were higher by $838,026 or 22% mainly due to the aggregate of the following:

- Addition of PIGCO operating expenses of $981,879;
- Salaries, benefits and commissions increased by $143,020 as a result of an additional full time employee and temporary labour;
- Audit fees increased by $98,949 as a result of the growth in the company and PIGCO acquisition;
- Insurance costs increased $47,076 as a result of premium increases;
- Investor relations and consulting costs increased $35,955 in support of the convertible debenture financing and the growth of the company;
- Legal fees increased by $26,129 on general corporate matters;
- Bad debt decreased by $425,474 due to the absence of a provision recorded in the prior year;
- Travel and business development decreased by $70,267 due to lower costs associated with management sales, business and investor relations travel.

Non-cash stock-based compensation expense was $93,154 in the first nine months of 2020 compared to $409,835 in the prior year period. The decrease of $316,681 was mainly the result of 600,000 stock options which were granted in the second quarter of 2019 to select board members which vested immediately as they replaced an equivalent number of stock options that had expired unexercised. In addition, the expense decreased $210,707, as a result of extending the expiry date of 1,925,000 previously issued stock options by two years in the third quarter of 2019.

Finance costs were $1,162,840 in the first nine months of 2020 compared to $654,172 in the same period in 2019, an increase of $508,668. The increase can be attributed to financing costs associated with the PIGCO acquisition and the $5.5 million unsecured convertible debenture offering which closed on April 22, 2020 and. The cash component of the PIGCO acquisition was financed entirely with a $2,800,000 USD BDC loan, resulting in interest of $246,688. In addition, the Company deferred principal payments on a $575,000 USD operating loan, which originally were to commence on January 1, 2020 to July 1, 2020. Interest is now payable on the loan at 9% per annum and was $46,585 in the first nine months of 2020. The Company issued a new convertible debenture for $5,720,000, resulting in additional interest of $201,268. The convertible debenture bears interest at a rate of 8% per year, payable semi-annually with a maturity date of April 22, 2023.

Other expenses of $675,914 were recognized in the first nine months of 2020 compared to income of $225,972 in the prior year period. The variance of $901,886 was largely due to $576,710 in non-cash earn-out expense in relation to PIGCO acquisition and the current period loss of $130,549 in unrealized foreign exchange which is caused by swings in foreign exchange rates on the following USD denominated liabilities: USD BDC Loan of $46,104 and convertible note of $82,989. As the Canadian dollar weakened relative to the USD, the value of these liabilities increased, which gives rise to an unrealized foreign exchange loss. The opposite effect occurred in the first nine months of 2019 resulting in a foreign exchange gain of $160,750.

Amortization of intangibles was $581,265 in the first nine months of 2020 compared to $368,558 in the prior year period. The expense originated, as a result of acquisitions of MOS and PIGCO where intangible assets of $638,879 and $1,705,641 were attributed to the value of the sales backlog on the business combination. These sales backlogs are being amortized into income over the period June 1, 2018 to September 30, 2019 for the MOS sales backlog and October 1, 2019 to December 31, 2021 for the PIGCO sales backlog.

Acquisition costs in the prior year period were $346,649 and relate to the acquisition of PIGCO which closed on October 1, 2019. There were no acquisition costs in the current period.

Accretion costs were $469,707 in the first nine months of 2020 compared to $388,165 for the same period last year. Accretion expense relating to the remaining tranches of the earn-out Liability was $216,572, accretion on the host debt contract of the convertible note was $180,452 and accretion on the host debt contract of the new convertible debenture was $72,683. Accretion on the earn-out liability and convertible note originated from the acquisition of MOS and were originally recorded at a discount. Accretion will end at the maturity date of these liabilities, which is May 31, 2021. The convertible debenture was issued April 22, 2020 and has a maturity date of April 22, 2023.

The earn-out liability for the second 12-month period ending May 31, 2020, resulted in a non-cash loss of $110,972 in the first nine months of 2020. In 2019, the non-cash gain of $464,915 was in relation to first 12 month period ended May 31, 2019 of the earn-out liability.

The convertible note issued upon acquisition of MOS was trifurcated into the host debt contract and conversion and prepayment features, both of which are accounted for as derivatives and revaluated at every reporting period. Based upon the black-scholes option pricing model, the fair value of the conversion and prepayment features of the convertible note increased by a net of $17,577 in 2020 resulting in a loss for the same amount, compared to a loss of $193,081 in the first nine months of 2019. The convertible debenture, which was issued in April 2020 was trifurcated into a host debt contract, prepayment and equity features, of which the prepayment feature is accounted for as a derivative and revaluated at every reporting period. Based upon the modified black-scholes option pricing model, the fair value of the prepayment feature of the convertible debenture increased by $79,646 in 2020, resulting in a gain for the same amount.

Unrealized foreign exchange gains and losses on the translation of foreign subsidiaries are recognized through other comprehensive income. MOS, PIGCO and Cematrix (USA) Inc. have a USD functional currency and as the Canadian dollar weakened relative to the USD, the value of these assets appreciated resulting in an unrealized foreign exchange gain of $170,816 in the first nine months of 2020. The opposite effect occurred in the first nine months of 2019 which resulted in an unrealized foreign exchange loss of $261,158.

D. Selected Quarterly Financial Information

The Company's business is seasonal in nature as it follows the construction season. The Company continues to pursue other markets where seasonality is less of an issue. This seasonality is reflected in the quarterly results summarized in the table below:

Quarters Ended	Revenues	Comprehensive Income (Loss)	Income (Loss) Per Share Basic	Income (Loss) Per Share Diluted
	$	$	$	$
March 31	**3,931,857**	**(533,688)**	**(0.023)**	**(0.023)**
June 30	**7,365,858**	**(1,039,100)**	**(0.010)**	**(0.010)**
September 30	**10,879,967**	**(160,326)**	**0.001**	**(0.000)**
Total for year	**22,177,682**	**(1,733,114)**	**(0.032)**	**(0.033)**
2019 Year				
March 31	3,185,726	(999,612)	(0.019)	(0.019)
June 30	6,448,543	6,946	0.004	0.004
September 30	7,622,397	(226,191)	(0.006)	(0.006)
December 31	5,294,288	513,592	0.012	0.012
Total for year	22,550,954	(705,265)	(0.005)	(0.005)

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

E. Consolidated Statements of Financial Position

		September 30 2020		December 31 2019		Change
Total current assets	**$**	**13,632,771**	$	6,634,384	$	6,998,387
Total non current assets		**23,143,496**		23,542,198		(398,702)
Total assets	**$**	**36,776,267**	$	30,176,582	$	6,599,685
Current liabilities	**$**	**14,070,371**	$	8,202,366	$	5,868,005
Non current liabilities		**14,135,744**		14,402,414		(266,670)
Total liabilities	**$**	**28,206,115**	$	22,604,780	$	5,601,335
Shareholders' equity	**$**	**8,570,152**	$	7,571,802	$	998,350

Total current assets increased by $6,998,387. This increase in aggregate is summarized below:

- Cash increased by $2,907,880 (See the discussion in Section F - Consolidated Statement of Cash Flows);
- Trade and other receivables increased by $3,886,733 as a result of the increase in sales and timing differences in the collections of trade receivables and sales;
- Inventory increased by $257,747 as a result of the PIGCO acquisition and the expectation of projects to be completed in the near term;
- Prepaids and deposits decreased by $42,991 due the recognition of these balances to income;
- Share acquisition loans decreased by $10,982 mainly as a result of a loan repayment.

Total non current assets decreased by $398,702. This increase in aggregate is summarized below:

- Property and equipment decreased by $578,016 primarily as a result of depreciation expense of $1,423,447 and disposals of $36,517 being partially offset by non-cash capital lease additions of $445,873, a $317,180 foreign exchange gain on the translation of assets held by our foreign denominated subsidiaries and capital expenditures of $118,895;
- Goodwill and intangibles assets decreased by $370,538 largely as a result of $581,265 in amortization being partially offset by a $208,095 foreign exchange gain on the translation of assets held by our foreign denominated subsidiaries and $2,632 on capitalized expenditures relating to research projects (including $2,632 of capitalized labour);
- The deferred tax asset increased by $549,852 as a result of losses in the Canadian operations during the first nine months ending September 30, 2020.

Total current liabilities increased by $5,868,005. This increase in aggregate is summarized below:

- Bank overdraft increased by $56,143 (See the discussion in Section F - Consolidated Statement of Cash Flows);
- Bank operating loan decreased by $192,780 due to timing differences to fund working capital requirements in the Canadian operations;
- The US operating loans decreased by $1,755,018 mainly as a result of principal repayments of $2,209,660. This was offset by additional proceeds of $335,725 and foreign exchange loss of $118,917. The US operating loans drawn at September 30, 2020 had a Canadian equivalent value of $431,295 or $323,334 USD;
- Trade and other payables increased by $2,572,079 largely due to increase in sales;
- Current portion of long term debt increased by $123,481 largely as a result of the first principal repayment of $200,000 on the Secured Debenture becoming due on January 1, 2021, which is within 12 months of the reporting date and $23,912 in unrealized foreign exchange loss on the revaluation of the USD denominated BDC loans offset by the reduction of loan repayments of $100,431 for the BDC equipment loan, which will be fully repaid on October 1, 2020;
- Current portion of lease obligations increased by $127,032 primarily as a result of unrealized foreign exchange losses on the translation of foreign denominated leases, the addition of new leases, offset by lease payments;
- Current portion of the earn-out liability is $1,845,923 USD or $2,462,277 CAD equivalent and originates from the acquisition of MOS;
    - The first tranche or 12 month period post close ending on May 31, 2019, was estimated at $851,956 USD on an undiscounted basis at December 31, 2018 and calculated based upon 70% of MOS's EBITDA above $500,000 USD for the 12 month period from June 1, 2018 to May 31, 2019. In 2019, this was revised to $501,221 USD of which $401,983 USD has been paid and the remaining balance of $99,238 USD or $132,374 will be paid subject to the collection of certain receivables and the resolution of restrictions imposed by the BDC as a result of a covenant breach at December 31, 2019.

- The second tranche or 12 month period post close ending on May 31, 2020, on a undiscounted basis was estimated at $606,564 USD or $860,532 and calculated based upon 65% of MOS's EBITDA above $500,000 USD for the 12 month period from June 1, 2019 to May 31, 2020. In 2020, this was revised to $713,434 USD or $951,649. This balance is due on August 29, 2020 and will be paid once restrictions imposed by the BDC, as the result of a covenant breach at December 31, 2019 has been resolved.
- The third tranche or 12 month period post close ending on May 31, 2021, on a undiscounted basis was estimated at $597,275 USD or $796,705 and calculated based upon 65% of MOS's EBITDA above $500,000 USD for the 12 month period from June 1, 2020 to May 31, 2021.
- 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 $0.5 million 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 and is estimated at $435,977 USD or $581,549.

- The convertible note has a face value of $2,500,000 USD and was issued on the acquisition of MOS and matures May 31, 2021, which is within the 12 months of the reporting date. On issuance, the convertible note was trifurcated into a conversion feature, prepayment feature and a debt host contract. At September 30, 2020 the convertible note had an aggregate carrying value of $3,345,469.

Total non-current liabilities decreased by $266,670. This increase in aggregate is summarized below:

- Long term debt decreased by $632,063 as a result of a reduction of repayments of $345,810 on USD denominated BDC Loans, $200,000 reclassification of the first principal repayment of the Secured Debenture to current and a reduction of $94,800 in principal repayments on CAD denominated BDC Loans offset by unrealized foreign exchange gain on the revaluation of the USD denominated BDC loans of $8,547;
- Lease obligations decreased by $29,109 primarily as a result of unrealized foreign exchange losses on the translation of foreign denominated leases, the addition of new leases, offset by lease payments. In total, between current and long term, non-cash additions were $445,873 and unrealized foreign exchange losses were $34,661. These were offset by principal repayments of $382,611;
- Earn-out liability is decreased by $647,160, as the entire liability is now considered as current, with the payment due within the 12-month period;
- On April 22, 2020, the Company issued unsecured convertible debenture with a total principal amount of $5,720,000 at a price of $1,000 per debenture with a maturity of April 22, 2023. On issuance, the convertible debenture was trifurcated into a host debt contract, prepayment and equity features. At September 30, 2020 the convertible debenture debt features had an aggregate carrying value of $4,142,246;
- The deferred tax liability increased by $71,636 due to higher profitability in our US operations.

Shareholders' Equity increased by $998,350. This increase in aggregate is summarized below:

- Share capital increased by $2,255,288 on the exercise of 4,674,456 warrants which resulted in the same number of common shares being issued. Cash proceeds of $1,562,997 were received and $474,221 was reclassified from contributed surplus relating to this exercise. Cash proceeds of $40,000 were also received upon the exercise of 200,000 options, which resulted in issuance of same number of common shares. The related non-cash stock-based compensation of $37,066, previously charged to contributed surplus was also reclassified to share capital.

  In addition, in the third quarter of 2020 the Company issued 297,500 common shares on the conversion of $119,000 in debentures which resulted in $78,723 being allocated to share capital from the previously recognized debt and equity features. Lastly, the Company issued 108,750 common shares on the exercise of broker warrants for gross proceeds of $43,500. The related fair value adjustment previously charged to equity feature of convertible debt was also reclassified to share capital in the amount of $18,781;

- Contributed surplus decreased by $387,798 as a result of the aforementioned reclassification of $511,287 to share capital on the exercise of warrants and options. In addition, $20,795 was reclassified to deficit, upon expiry of 50,000 warrants. The Company also reclassified $40,277 and $10,853 from the equity component of convertible debt to contributed surplus upon the exercise of convertible debenture and broker warrants as mentioned above. Lastly, non-cash stock-based compensation of $93,154 was recorded during the period, which increased the contributed surplus balance;

- Accumulated other comprehensive income decreased by $170,816 due to the unrealized foreign exchange gain on the translation of MOS, PIGCO and Cematrix USA for the nine months ended September 30, 2020 as the USD depreciated;

- The convertible debenture has a conversion feature, which is classified as equity with an aggregate carrying value of $588,414. In addition, the broker warrants issued as part of the transaction costs for this financing was also classified as equity and assigned a fair value of $299,750, resulting in total balance of $888,164, assigned to the equity component of the convertible debenture. As mentioned above, during the third quarter of 2020, upon the exercise of both convertible debenture and broker warrants, the Company reclassified $15,351 and $29,634, respectively from the equity component of convertible debenture to both share capital and contributed surplus;

- The Deficit increased by $1,883,135 due to the loss to common shareholders for the nine months ended September 30, 2020.

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

F. Consolidated Statements of Cash Flows

Comparison of the Three Months ended September 30, 2020 and September 30, 2019

The cash position of the Company at September 30, 2020 was $3,507,797 (consisting of cash in the bank of $3,728,354 net of the bank overdraft of $220,557) compared to a cash position of $1,315,375 (consisting of cash in the bank of $1,318,564 net of the bank overdraft of $3,189) at September 30, 2019.

The change in cash in the third quarter of 2020 was a decrease of $367,419 as compared to an increase of $523,571 in the same period of 2019. This change is outlined in the table below:

	Three Months Ended September 30		
	2020	2019	Change
Cash generated from (used in) operating activities			
Before non-cash working capital adjustment	**$ 1,565,732**	$ 469,967	$ 1,095,765
Net change in non-cash working capital items	**(1,327,234)**	(1,272,141)	(55,093)
	238,498	(802,174)	1,040,672
Cash used in investing activities	**(24,302)**	(54,555)	30,253
Cash generated from (used in) financing activities	**(567,334)**	1,375,286	(1,942,620)
Foreign exchange effect on cash	**(14,281)**	5,014	(19,295)
Increase in cash	**(367,419)**	523,571	(890,990)
Cash at beginning of period	**3,875,216**	791,804	3,083,412
Cash at end of period	**$ 3,507,797**	$ 1,315,375	$ 2,192,422

- Cash generated from operating activities increased by $1,040,672.
  - Cash flow before non-cash working capital adjustments increased by $1,095,765 mainly as a result of higher revenues in MOS and PIGCO offset partially by the addition of fixed operating costs associated with the PIGCO acquisition.
  - Net change in non-cash working capital items decreased by $55,093, primarily due to the level of trade receivables generated in the respective periods and the timing of their collection.

- Cash generated from investing activities increased by $30,253.
  - Property and equipment additions increased by $25,559 due to the fabrication of a new foam generator.
  - Proceeds on the sale of equipment were $39,494 in the third quarter of 2020 due to the sale of two vehicles and a piece of equipment.
  - Intangible asset spending relating to product testing decreased by $16,318. There were no costs incurred in relation to product testing in the third quarter of 2020, compared to $16,318 (including $6,317 of capitalized internal labour) in the third quarter of 2019.
- Cash generated from financing activities decreased by $1,942,620.
  - In 2020 the Company used $567,334 for financing activities. The Company received net proceeds of $500,653 from the exercise of warrants during the quarter and $117,762 from its operating loan. This was offset partially by scheduled repayments of $651,164 on long term debt, $396,677 on its existing US operating loan and $137,908 on lease obligations.
  - In 2019 the Company generated $1,375,286 from financing activities. The following sources of financing were received by the Company: The private placement generated net proceeds of $2,141,800 from the issuance of common shares and share purchase warrants and the demand operating loan provided $167,798. This was offset by repayments of $534,436 on the earn-out liability, $344,008 on long term debt and $55,868 on lease obligations.

Comparison of the Nine Months ended September 30, 2020 and September 30, 2019

The cash position of the Company at September 30, 2020 was $3,507,797 (consisting of cash in the bank of $3,728,354 net of the bank overdraft of $220,557) compared to a cash position of $1,315,375 (consisting of cash in the bank of $1,318,564 net of the bank overdraft of $3,189) at September 30, 2019.

The change in cash in the first nine months of 2020 was an increase of $2,851,737 as compared to an increase of $1,195,737 in the same period of 2019. This change is outlined in the table below:

	Nine Months Ended September 30		
	2020	2019	Change
Cash generated from (used in) operating activities			
Before non-cash working capital adjustment	**$ 1,049,926**	$ 659,363	$ 390,563
Net change in non-cash working capital items	**(1,541,873)**	(501,548)	(1,040,325)
	(491,947)	157,815	(649,762)
Cash used in investing activities	**(67,093)**	(415,897)	348,804
Cash generated from financing activities	**3,381,614**	1,459,059	1,922,555
Foreign exchange effect on cash	**29,163**	(5,240)	34,403
Increase in cash	**2,851,737**	1,195,737	1,656,000
Cash at beginning of period	**656,060**	119,638	536,422
Cash at end of period	**$ 3,507,797**	$ 1,315,375	$ 2,192,422

- Cash used in operating activities increased by $649,762.
  - Cash flow before non-cash working capital adjustments increased by $390,563 mainly as a result of higher revenues in MOS and PIGCO offset partially by the addition of fixed operating costs associated with the PIGCO acquisition.
  - Net change in non-cash working capital items decreased by $1,040,325 primarily due to the level of trade receivables generated in the respective periods and the timing of their collection.

- Cash used in investing activities decreased by $348,804.
  - Property and equipment additions decreased by $298,151 in the absence of an upgrade to a wet mix unit in the first nine months of 2019.
  - Proceeds on the sale of equipment were $42,994 in the first nine months of 2020 compared to $41,000 in the same period of 2019.
  - Intangible asset spending relating to product testing decreased by $37,219. Expenditures of $2,632 (entirely comprised of capitalized internal labour) were incurred in the first nine months of 2020 compared to $39,851 (including $9,779 of capitalized internal labour) in the same period of 2019.
  - The Company received $11,440 in share acquisition loan repayment in the first nine months of 2020.
- Cash generated from financing activities increased by $1,922,555.
  - In 2020 the Company generated $3,381,614 from financing activities. The Company received net proceeds of $4,835,607 on a new $5,500,000 Convertible Debenture, $1,646,497 from the exercise of warrants during the first nine months of 2020 and $335,725 on a new $250,000 USD operating loan. This was offset by repayments of $2,209,660 on its existing US operating loan, scheduled repayments of $651,164 on long term debt, $382,611 on lease obligations and $192,780 on its operating loans.
  - In 2019 the Company received $1,459,059 from financing activities. The following sources of financing were received by the Company: The private placement generated net proceeds of $2,141,800 from the issuance of common shares and share purchase warrants, $319,445 was received on an equipment loan provided by the BDC and the demand operating loan provided $33,806. This was offset by repayments of $534,436 on the earn-out liability, $344,008 on long term debt and $157,548 on lease obligations.

G. Liquidity and Capital Resources

Liquidity

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

The Company, through its wholly owned subsidiary CEMATRIX Canada, has a $1,500,000 bank operating loan with the Canadian Western Bank ("CWB" or "Bank"). Under the bank operating loan, the Bank will advance up to $1,500,000 based on 75% and 50% of Canadian and Cematrix (USA) trade receivables (less than ninety days), respectively outstanding at the end of each month and 50% of inventories (up to a maximum $250,000). Based on these restrictions, $1,271,700 of the bank operating loan was available at September 30, 2020 with $747,479 being drawn.

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

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

- Cash flow coverage ratio of not less than 1.25, tested no less than annually. This is a ratio of EBITDA to all interest (paid or accrued) plus the actual principal payment obligations for the trailing fiscal year on all indebtedness for borrowed money and leases. EBITDA will be calculated excluding the extraordinary items (acquisition cost, gain/loss on disposition of assets) and significant non-cash items (stock-based compensation, revaluation of the earn out liability, mark to market adjustments, unrealized foreign exchange gains and losses);

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

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

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

The BDC Financing loan 5 and loan 6 have a consolidated fixed charge coverage ratio financial covenant which is tested annually. At December 31, 2019 the Company was not in compliance with this covenant. On the same date, the BDC provided a tolerance for this covenant breach for the period up to and including December 31, 2020. As a result of being offside on this covenant, the BDC has postponed the payment of earn-out to MOS and this is expected to remain in place until the covenant is back in good standing.

The Company, through its wholly owned subsidiary PIGCO, has a $430,000 USD loan. The loan is repayable in 12 equal monthly payments starting November 1, 2019 and does not bear interest. At September 30, 2020 the Canadian equivalent of this loan was $47,798.

The Company, through its wholly owned subsidiary Cematrix (USA) Inc., has a $575,000 USD loan. Originally, the loan did not bear interest and was repayable in 6 equal monthly principal repayments starting on January 1, 2020. Subsequently, the start of the loan repayments was deferred to July 1, 2020 and now bears interest of 9% per annum starting January 1, 2020, payable monthly. The loan has a balance of $287,500 USD at September 30, 2020 with a Canadian equivalent value of $383,497.

The Company, through its wholly owned subsidiary MOS, had a $750,000 USD loan. The loan was repayable on July 31, 2020 with an annual interest rate of 14%, payable monthly. At December 31, 2019 the Canadian equivalent of this loan was $974,100. This working capital loan was repaid on May 5, 2020 from proceeds received through the debenture offering completed on April 22, 2020.

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

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

At September 30, 2020, the Company had Net Working Capital of $4,852,696 compared to $3,323,286 at December 31, 2019.

For the nine months ended September 30, 2020, the Company reported positive cash flow from operations before net change in non-cash working capital items of $1,049,926 and a positive EBITDA of $1,446,249.

Management continues to closely monitor discretionary costs.

The realization of Net Working Capital, the availability of the CWB bank operating loan and the successful completion of the approximate $86.2 million in sales contracts, contracts in progress and new sales over the next 2 years will provide the necessary liquidity to carry the Company's operations through 2020, 2021 and 2022. Ongoing liquidity beyond this, is dependent on the Company achieving additional sales and profitable results.

Capital resources

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

The Company defines its capital as the long-term debt, the lease obligations and shareholders' equity. The current objective of the Company is to manage its capital through growth in earnings and to re-invest the earnings generated to facilitate the continued growth in the Company, in order to provide an appropriate rate of return to shareholders in relation to the risks underlying the Company's assets. The consolidated capital of the Company as outlined in Note 26 to the Condensed Consolidated Financial Statements was $26,078,652 at September 30, 2020 as compared to $23,123,264 at December 31, 2019 (see Section H. Consolidated Statements of Financial Position for details).

H. Off Balance Sheet Arrangements

There were no off balance sheet arrangements as at September 30, 2020.

I. Transactions with Related Parties

During the three and nine months ended September 30, 2020, the Company incurred legal fees from a firm which employs one of the directors of the Company in the amount of $460 and $1,349, respectively (2019 - $77,277 and $111,484) of which $460 is in trade and other payables as at September 30, 2020 (December 31, 2019 - $7,890).

J. Critical Accounting Judgments, Estimates and Assumptions

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

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

K. Changes in Accounting Policies including Initial Adoption.

New accounting policies

During 2019 the Company adopted new IFRS standards and amendments in accordance with the transitional provisions of each standard as outlined below.

IFRS 16 Leases ("IFRS 16")

Effective January 1, 2019, the Company adopted IFRS 16 Leases (IFRS 16) using the modified retrospective approach. The new standard requires a lessee to recognize a liability to make lease payments (the lease liabilities) and an asset to recognize the right to use the underlying asset during the lease term (the lease assets) in the statement of financial position.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Future accounting pronouncements

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

L. Financial Instruments

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

Other financial liabilities

Other financial liabilities are initially measured at fair value and are subsequently measured at amortized cost using the effective interest rate method, with interest expense recognized on an effective yield basis. Liabilities in this category include bank overdraft, bank operating loan, US operating loan, trade and other payables, loan and long-term debt.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Fair values

The fair values of cash and cash equivalents, term deposits, trade and other receivables, bank overdraft, bank operating loan, US operating loan, and trade and other payables approximate their carrying values due to the relatively short periods to maturity of these instruments.

The fair value of the BDC Financing loans approximate its carrying value as the debt rate floats with prime and is representative of market rates offered to the Company.

The fair value of the share acquisition loans has been determined using a market rate of interest.

The fair value of the secured debenture approximates its carrying value as the interest rate is a market rate for similar instruments offered to the Company for similar instruments.

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

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

Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm’s length transaction between knowledgeable and willing parties who are under no compulsion to act.

The Company classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument

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

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

Level 3 – Valuations in this level are those with inputs for the assets or liabilities that are not based on observable market date. The earn-out liability is measured at level 3.

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

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

Interest Rate Risk
The BDC Financings, which totalled $5,771,916 at September 30, 2020 and the Loan, which had a balance at September 30, 2020 of $747,479 are subject to floating market rates. Based on the floating rate debt outstanding as at September 30, 2020, a 1% increase/decrease in interest rates would result in a decrease/increase in net loss attributable to common shareholders of approximately $47,500.

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

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

Financial instruments that subject the Company to credit risk consist primarily of cash and cash equivalents, term deposits, trade receivables and the share acquisition loans. The Company's cash is held with large established financial institutions. The Company manages credit risk using credit approval and monitoring practices. The credit risk on share acquisition loans is minimal as the Company can cancel the common shares issued to these individuals in the event of non payment. At September 30, 2020, 13 customers accounted for approximately 78% of trade receivables (at December 31, 2019, 16 customers accounted for approximately 75% of trade receivables). For the nine months ended September 30, 2020, 15 customers accounted for approximately 79% of revenue. At September 30, 2020, the Company had $3,728,354 of cash and cash equivalents (2019 - $820,474), an $80,000 term deposit (2019 - $80,000) and $27,089 (2019 - $38,071) of fair valued share acquisition loans that are outstanding with a former officer of the Company.

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

The table below summarizes the maturity profile of the Corporation's financial liabilities as at September 30, 2020 and December 31, 2019 based on contractual undiscounted payments.

	Less than 1 year	1 to 2 years	2 to 6 years	Total
As at September 30, 2020				
Bank overdraft	**$ 220,557**	**$ -**	**$ -**	**$ 220,557**
Bank operating loan	**747,479**	**-**	**-**	**747,479**
US operating loan	**431,295**	**-**	**-**	**431,295**
Trade and other payables	**4,944,632**	**-**	**-**	**4,944,632**
Long-term debt	**1,345,629**	**1,289,112**	**4,137,175**	**6,771,916**
Lease obligations	**573,033**	**588,180**	**908,882**	**2,070,095**
Earn-out liability	**2,462,277**	**-**	**-**	**2,462,277**
Convertible debt	**3,345,469**	**-**	**4,142,246**	**7,487,715**
	$ 14,070,371	**$ 1,877,292**	**$ 9,188,303**	**$ 25,135,966**

	Less than 1 year	1 to 2 years	2 to 6 years	Total
As at December 31, 2019				
Bank overdraft	$ 164,414	$ -	$ -	$ 164,414
Bank operating loan	940,259	-	-	940,259
US operating loan	2,186,313	-	-	2,186,313
Trade and other payables	2,372,553	-	-	2,372,553
Long-term debt	1,222,148	1,276,356	4,781,994	7,280,498
Lease obligations	446,001	449,045	1,077,126	1,972,172
Earn-out liability	870,678	647,160	-	1,517,838
Convertible debt	-	3,172,220	-	3,172,220
	$ 8,202,366	$ 5,544,781	$ 5,859,120	$ 19,606,267

The Company has the option of paying just interest on the earn-out liability and delay the payment altogether. In addition, as previously mentioned, the BDC has postponed the payment of earn-out to MOS, due to being offside on their covenant and this is expected to remain in place until the covenant is back in good standing. Further, the convertible note is currently in the money and most likely will be converted before the maturity date of May 31, 2021. The Company is currently working with the holder of the convertible note and determining a best course of action.

Foreign Exchange Risk

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

As at September 30, 2020 and December 31, 2019, the following balances were denominated in USD:

		2020		2019
Cash and cash equivalents	**$**	**1,276,303**	$	583,193
Trade and other receivables	**$**	**4,512,373**	$	1,718,472
Prepaid expenses and deposits	**$**	**81,716**	$	101,439
Trade and other payables	**$**	**2,716,115**	$	851,655
US operating loan	**$**	**323,334**	$	1,683,333
Long term debt	**$**	**3,878,911**	$	4,225,000
Lease obligations	**$**	**932,510**	$	918,177
Earn-out liability	**$**	**1,845,923**	$	1,168,646
Convertible debt	**$**	**2,508,036**	$	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 September 30, 2020 a 1% increase/decrease of the USD against the Canadian dollar would result in an increase/decrease in total comprehensive loss of approximately $62,000.

M. Disclosure of Outstanding Share Data

As at September 30, 2020 and November 4, 2020, the following is a description of the outstanding equity securities and convertible securities previously issued by the Company

	Authorized	Outstanding as at September 30, 2020	Outstanding as at November 4, 2020
Voting or equity securities issued and outstanding	Unlimited Common Shares	64,566,725 Common Shares	64,566,725 Common Shares
Securities convertible or exercisable into voting or equity securities – stock options	Stock options to acquire up to 10% of outstanding Common Shares	The right to acquire 4,403,334 Common Shares at an exercise price at between $0.19 - $0.43	The right to acquire 4,403,334 Common Shares at an exercise price at between $0.19 - $0.43
Securities convertible or exercisable into voting or equity securities – share purchase warrants	As approved by the board	The right to acquire 11,032,846 Common Shares at an exercise price at between $0.30 - $0.35	The right to acquire 11,032,846 Common Shares at an exercise price at between $0.30 - $0.35
Securities convertible or exercisable into voting or equity securities – units	As approved by the board	The right to acquire 991,250 units at a price of $0.40. Each unit is comprised to one Common Share and a half share purchase warrant to acquire Common Shares at $0.45	The right to acquire 991,250 units at a price of $0.40. Each unit is comprised to one Common Share and a half share purchase warrant to acquire Common Shares at $0.45

N. Outlook

Management continues to be optimistic for 2020 and beyond because of our success to date; the growth in the number and size of projects being tendered each day; the continued growth in product acceptance across North America; the growth in our sales backlog and sales pipeline; our continued focus on quality, technical expertise and research and development; the timely execution of our projects; the strategic alliances that we continue to develop and most importantly the team that we have in place to support this growth.

The COVID-19 situation is continuing to result in project delays; however, the number of delays has started to slow down and in fact a couple of previously delayed projects have now been moved ahead of their revised schedules. Our customers, suppliers and others including our team have adapted and are learning how to work within this new environment. Also, and most important to management and our investors is that these projects are not cancelled due to the COVID situation, just delayed.

Furthermore, management anticipates, but is not counting on potential additional growth associated with the U.S. plans to move over $1 trillion of replacement infrastructure ahead, regardless of which party is elected. This replacement infrastructure is mainly related to the replacement of roads, highways, overpasses and will likely include the construction of new tunnels under cities to increase or replace aging or over capacity water and sewer lines. If this infrastructure spending goes ahead it may increase our current expected strong growth quite significantly.

In addition, our liquidity improved with the closing of the unsecured convertible debenture financing on April 22, 2020 and the continued execution of increasing sales. The debenture itself generated net proceeds of $4.8 million, of which $1.4 million was used to repay high interest short term debt. The residual is being kept in working capital with the intention of preserving the financial capacity of the Company. This cash, together with cash generated from operations and on-going exercise of warrants has put the Company in a strong financial position moving forward.

There will still be challenges related to the unknowns surrounding the COVID situation, the timing or projects and the handling of debt including the upcoming convertible debt due May 31, 2021, which is in the money; however, management is confident that its markets, sales, profits, cash flows and opportunities will continue to grow.

Besides organic growth, which is expected to remain strong, management is also considering additional potential growth opportunities through acquisition, research/product development, strategic alliances and other opportunities.

Appendix A – Forward Looking Statements

The forward-looking statements in the MD&A for the three and nine months ended September 30, 2020 are outlined below:

General

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

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

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

Appendix B – Definitions

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

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

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

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

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

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

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

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

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

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