CEMATRIX™

Cellular Concrete Solutions

CEMATRIX CORPORATION

Management's Discussion and Analysis

For the Year Ended December 31, 2022

(in 000's Canadian dollars)

CEMATRIX CORPORATION
www.cematrix.com

Form 51-102F1 - Management's Discussion & Analysis
For the Three and Twelve Months Ended December 31, 2022

The following is the Management's Discussion and Analysis ("MD&A") of CEMATRIX Corporation ("CEMATRIX" or the "Company") for the year ended December 31, 2022. This MD&A should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2022, and the related notes thereto ("Consolidated Financial Statements") and the audited consolidated financial statements and MD&A of the Company for the year ended December 31, 2021 and related notes thereto. These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All dollar figures included therein and in this MD&A are in Canadian dollars and all amounts are reported in thousands of Canadian dollars, except share and per share amounts or as otherwise stated. Certain comparative figures have been reclassified to conform to the MD&A presentation adopted for the current year.

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

The Audit Committee of the Company reviewed and recommended for approval by the Board of Directors of the Company the Consolidated Financial Statements and MD&A for the year ended December 31, 2022. The Board of Directors of the Company reviewed and approved the Consolidated Financial Statements and MD&A on April 12, 2023.

Index

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

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

A. Purpose of the Company's MD&A

The purpose of this MD&A is to provide a narrative explanation, through the eyes of management, to assist the reader in understanding the Company's performance for the year ended December 31, 2022, the Company's financial condition as at December 31, 2022 and its future prospects.

B. Highlights

Financial Position

Our current cash position is now $10.7 million versus $20.2 million one year ago. In 2022, we paid down long-term debt, finance lease obligations, and associated interest by $2.3 million. We invested $1.9 million on new equipment and vehicles, and invested $2.2 million into Glavel Inc. With a strategic focus on reducing leverage on the balance sheet, the recent financing and resulting strong cash position the Company is well positioned financially. The long-term financial health of the Company is strong.

Highest Revenue in the History of the Company

The Company delivered the highest revenue in the history of the Company for the full year of 2022. Fourth quarter revenue was up 20% ($8.3M vs $6.9M) and 2022 revenue is up 28% ($29M vs 22.6M) compared to last year. The Company delivered this record revenue despite challenges across our business related to supply chain impacts including cement supply and customer scheduling changes.

Continued Inflationary Pressures and resulting Gross Margin Impacts

The Company experienced inflationary pressures across all facets of our business which has led to lower gross margins on a dollar basis and as a percentage of revenue. In particular, cost increases in salaries, wages, logistics, consumables, cement and ready-mix pricing all contributed to lower gross margins. The Company does not expect to see these cost increases reverse in the future however the Company does expect the pace of inflation to slow as central banks in Canada and the US continue to raise interest rates in response to inflation.

Cement Supply Challenges continue in many Markets

Cement is the number one material used in the creation and production of cellular concrete. In recent years, cement supply was generally available and at worst was able to be procured within a couple of weeks of requirements. In Q2, 2022 this changed in several markets. The Company experienced cement or ready mix availability shortages in several key Canadian markets including the Lower Mainland in British Columbia (Greater Vancouver Area), Ontario and Quebec. The Company also experienced cement or ready mix availability shortages in several US markets including the Detroit and Chicago markets and in Texas. We saw this trend continue in the second half of 2022 and expand into more markets. In these markets, customers are on allocations and in many cases existing suppliers are not taking on new customers making finding alternative supply challenging to impossible. As a result, several projects were once again delayed in these markets and in select cases some customers choose to source an alternative product due to cement suppliers not being able to provide us with cement. In some situations, the Company was forced to procure cement or ready mix from an alternate supplier at a higher cost when our primary or contracted supplier was not able to supply the Company. The Company's cement and ready-mix suppliers have indicated that they do expect the availability of cement and ready-mix to improve in 2023 and in particular in the last half of the year.

New Equipment on Order

In the second quarter of 2022, CEMATRIX placed orders for two new state of the art pieces of dry-mix equipment for an estimated total capital expenditure commitment of $2.7 million. These units will provide the Company with a cost advantage versus competitors that rely on ready mix and will be deployed to support our regional expansion plans in the USA. The two new units will increase our overall dry-mix production capacity by approximately 20%. The Company accepted delivery of the first unit in Q1 2023 and is expecting delivery in mid 2023 for the second unit.

Full Year 2023 Forecast

Even with the record revenue in 2022, the Company experienced a number of projects that were extended into or delayed into 2023, which is setting the Company up for a very strong first quarter and full year 2023 from a revenue perspective. In addition, the Company also expect gross margins to improve in 2023 as inflationary pressures ease and project profitability improves with changes in the availability of cement and ready-mix supply which should help the Company reduce some of the some challenges faced in 2022.

Our sales teams continue to win projects as a result of our quality, innovation and competitiveness in our key markets. CEMATRIX continues to invest in sales resources and new equipment to expand geographically in markets that are close to our existing operations. The Company remains extremely confident that 2023 we will once again set a new record revenue with the volume of work that is contracted or in the process of being contracted for 2023.

Strong Backlog

The Company continues to see a strong bid pipeline and be awarded new projects. Subsequent to the end of the year, the Company announced on February 13, 2022, that an additional $5.3 million in contracts and contracts in process had been executed and then also announced on March 22, 2023, that an additional $4.5 million in contracts and contracts in process had been executed bringing total backlog to $87.2 million. The Company continues to see increased activity in its bid pipeline which bodes well for 2023 and beyond.

Several of the larger projects in backlog are expected to start in 2023 including our largest contract executed with Balfour Beatty Infrastructure Inc for a project with the North Carolina Department of Transportation ("NCDOT") for the backfill of several new overpasses along a freeway corridor in North Carolina.

Financial Review – Fourth Quarter

Revenues were $8.3 million for the fourth quarter of 2022, an increase of $1.4 million or 20%, compared to $6.9 million in the fourth quarter of 2021. The increase in revenue was mainly due to the timing of large projects particularly tunnel grouting work. The revenue generated in the fourth quarter of 2022 from our US businesses amounted to $6.4 million, while Canadian sales amounted to $1.9 million.

Gross Margin was $0.4 million in the fourth quarter of 2022, compared to $1.7 million in the fourth quarter of 2021, a decrease of $1.3 million or 75%. In addition, Gross Margin percentage decreased to 5% in the fourth quarter of 2022 compared to 24% in comparative period. The decrease in Gross Margin and Gross Margin percentage is primarily the result of inflationary pressures and cement supply challenges on raw material costs that were not able to be passed onto clients.

Adjusted EBITDA was negative $0.8 million in the fourth quarter of 2022 compared to positive $0.1 million in the same period of 2021. The decline in adjusted EBITDA was due primarily to lower gross margins.

The Company generated cash flow from operating activities of $0.1 million in the fourth quarter of 2022, compared to $0.7 million in the same period of 2021.

Financial Review – Year

Revenue for the year ended December 31, 2022, was $29 million, an increase of $6.4 million or 28% compared to 2021. The increase in revenue was mainly due to the completion of several large tunnel grouting projects. The revenue generated in 2022 from our US businesses amounted to $21.4 million, while Canadian sales amounted to $7.6 million.

Gross Margin and Gross Margin Percentage were $2.5 million and 9%, respectively for 2022 compared to $3.9 million or 17% in 2021, a decrease of $1.4 million or 35%. The change in the gross margins is primarily the result of inflationary pressure and cement supply challenges on raw material costs that were not able to be passed onto clients.

2022 Adjusted EBITDA was a negative $2.7 million, compared with negative Adjusted EBITDA of $0.7 million in the same period in 2021. The decline in adjusted EBITDA was due lower gross margins.

The Company had negative cash flow from operating activities of $3.2 million in 2022, compared to negative cash flow from operating activities of $0.8 million in the same period in 2021.

C. Corporate Overview

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

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

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

The Company's revenue is recognized as the Company processes and places the cellular concrete on site, based on the number of cubic meters or cubic yards processed and placed.

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

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

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

The value proposition that CEMATRIX offers to customers is as follows: CEMATRIX cellular concrete saves significant time and money for its customers and provides a better overall long term construction solution (the "Value Proposition").

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

Over the years the Company has invested in additional staff and equipment in order to prepare for what management believes will be a significant increase in annual sales, as the Company's product reaches the "tipping point' for a number of applications. Tipping point refers to the point in time where customers decide that they will use the Company's product, as opposed to alternative products, for certain applications (i.e. all bridge abutment work, or all MSE panel backfill or all the insulation of oil sand modules etc.). The cost of this investment, in terms of additional staff and equipment, has negatively affected the financial results over the past few years, however, it has helped to put the Company in a better position to achieve sales growth, as it occurs and to utilize its economies of scale with the acquisition of MixOnSite and Pacific International Grout Co. in the US.

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

D. Business Strategy for Growth and Shareholder Value Creation

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

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

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

E. Key Market Drivers

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

Product Acceptance Through Education of the Market

CEMATRIX's mission statement is to gain broad market acceptance of its product for various applications throughout North America, with its main focus on Canadian infrastructure and now U.S. infrastructure applications through its recently acquired U.S. subsidiaries MOS and PIGCO.

The successful implementation of this vision is dependent on its product becoming accepted by more of the project design engineers and specifiers. These individuals are in charge of the engineering and design of infrastructure projects, the materials that can be used in various projects and the determination of whether cellular concrete can be considered for a particular application.

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

The Company's ongoing education and marketing program, together with the experience generated from projects throughout its markets in Canada and the U.S., has improved the acceptance by a number of design engineers, particularly in Canada where CEMATRIX continues to develop new markets. For some applications in these new markets (primarily road work), cellular concrete will also need to be accepted and become an approved product by various municipal and provincial government departments. In this regard, in Canada, CEMATRIX has obtained, or is in the process of obtaining, the various approvals in the jurisdictions that the Company currently operates in.

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

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

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

The joint marketing agreement with Lafarge, initially signed in 2016, is for the joint development of CEMATRIX cellular concrete markets throughout Canada to increase the awareness of the construction challenges which can be solved by CEMATRIX cellular concrete solutions and thereby grow sales. This agreement was renewed in April 2021 for an additional 5 year term.

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

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

Availability of Capital for Infrastructure Construction

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

F. Key Risks and Uncertainties

For a comprehensive list of all risks associated with the business please see the Company's Annual Information Form ("AIF"). The risks identified below are the key risks of the business. Besides the issues discussed under Section E - Key Market Drivers, management has identified the following additional risks and uncertainties:

Supply Chain Challenges

CEMATRIX has historically been insulated from supply chain disruptions however recently CEMATRIX has recently experienced more challenges in its supply chain. The primary driver has been driven by COVID and related jurisdictions health mandates and their impacts on the supply chain. These supply chain challenges have been exacerbated in some jurisdictions by extreme weather, labour disputes, and in the case of global commodities geopolitical crisis. To date the impacts of these supply chain challenges has been primarily increasing prices which as a result is increasing our cost of sales. In some cases, these increases can be passed along to customers and in other cases of firm commitments it results in reduced margins. Security of cement supply is our number one priority with respect to our supply chain.

Staffing Requirements

CEMATRIX will always have issues finding experienced individuals to hire for various positions because of the unique nature of its business, but this has become less of an issue with the acquisitions of PIGCO and MOS, and in fact it enables the CEMATRIX group of companies to allocate underutilized operating and technical staff resources between its operating subsidiaries, subject to the limitation created by cross border issues. The Company is seeing significant wage inflation for roles that are cross industry functions such as accounting and sales.

Inflation

Inflation is now a concern due to the impacts of the many government programs and the associated spending to fund them which has created large government deficits in almost every jurisdiction. At the national level, this has resulted in increases to the money supply as well to fund some of these programs. The net result has been significant inflationary pressures on all parts of our business and in particular on wages. The Company is managing this risk by passing along, to the extent possible, the increased costs to our customers.

Project Scheduling

The Company has no control over the timing of contracted projects. Delays are common in the construction industry, particularly in the initial start dates. Delays in contracted work can occur at any time. Furthermore, delays in projects can also result in scheduling issues that could prove costly to the Company or result in the Company missing financial projections. The risks associated with scheduling changes will be an ongoing issue for the Company.

Increasing Cement Commodity Prices

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

Access to Capital

CEMATRIX is currently very well-funded with a strong balance sheet and large cash position. The Company is actively searching for opportunities to invest this cash in accretive acquisitions that fit our strategy and in new equipment / regional expansion. In addition, the Company recently completed a new $5 million credit facility with the CIBC to provide further financial flexibility. Beginning in the last half of 2021 (and continuing) the overall capital markets for micro-cap companies (like CEMATRIX) has retreated and as a result Management's assessment is that it would be significantly more difficult to raise capital in 2022. As a such, there is no guarantee that the Company will continue to have access to additional capital or be able to raise capital in the capital markets which may impair the ability of the Company to grow.

Competition

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

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

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

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

Product Warranties

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

(in 000's Canadian Dollars)

G. Operations and Overall Performance

Results of Operations – Fourth Quarter

Comparison of the Three Months Ended December 31, 2022, with the same period in 2021:

	2022	2021	Change
Revenue	$ **8,303**	$ 6,948	$ 1,355
Gross margin	$ **417**	$ 1,674	$ (1,257)
Operating expenses	**(1,677)**	(1,749)	72
Operating income (loss)	**(1,260)**	(75)	(1,185)
Stock based compensation	**(147)**	(91)	(56)
Finance costs	**(215)**	(189)	(26)
Other income (expense)	**(202)**	(271)	69
Amortization of intangibles	**-**	(180)	180
Impairment of intangibles	**-**	(768)	768
Share of losses of Glavel Inc.	**(34)**	-	(34)
Accretion costs	**(106)**	(79)	(27)
Fair value of derivatives	**5**	(227)	232
Loss before income taxes	**(1,959)**	(1,880)	(79)
Provision of deferred taxes	**753**	320	415
Provision of current taxes	**(23)**	(6)	(17)
Loss attributable to the common shareholder	**(1,247)**	(1,566)	319
Unrealized foreign exchange gain (loss) on translation of foreign subsidiaries	**(45)**	(60)	15
Comprehensive income (loss)	$ **(1,292)**	$ (1,626)	$ 334
Fully diluted gain (loss) per common share	$ **(0.009)**	$ (0.009)	$ (0.000)

Revenues were $8.3 million for the fourth quarter of 2022, an increase of $1.4 million or 20%, compared to $6.9 million in the fourth quarter of 2021. The increase in revenue was mainly due to the timing of large projects particularly tunnel grouting work.

Gross Margin was $0.4 million in the fourth quarter of 2022, compared to $1.7 million in the fourth quarter of 2021, a decrease of $1.3 million or 75%. In addition, Gross Margin percentage decreased to 5% in the fourth quarter of 2022 compared to 24% in comparative period The decrease in Gross Margin and Gross Margin percentage is primarily the result of inflationary pressures and cement supply challenges on raw material costs that were not able to be passed onto clients.

Operating expenses were $1,677 in the fourth quarter of 2022 compared to $1,749 in the same period in 2021, a decrease of 4% mainly due to a reduction consultants, repairs and maintenance, and depreciation compared to the same period in 2021.

Stock-based compensation expense of $147 for the fourth quarter of 2022 compared to $91 the fourth quarter of 2021. The increase was primarily due to new stock options granted and new to employees in during the year. In addition, the Company issued restricted share units ("RSU") in the second quarter of 2022, which also resulted in an increase in stock-based compensation expense in the current quarter.

Finance costs were $215 in the fourth quarter of 2022 compared to $189 in the same period in 2021, an increase of $26 or 14%. The increase can be mainly attributed to higher interest rates due to the rise prime lending rate in Canada, higher foreign exchange on US Dollar denominated debt, and higher costs related to the new credit facility.

Other income (expense) was ($202) in the fourth quarter of 2022 compared to ($271) in the fourth quarter of 2022. In the fourth quarter of 2022, other income was mainly related to interest income of $107 (2021 - $nil), offset by foreign exchange losses of $172 and loss on sale of equipment of $79 (2021 - $nil). Other income in the fourth quarter of 2021 is mainly related to a reversal of government wage and rent subsidies of ($225).

Amortization of intangibles was $nil in the fourth quarter of 2022 compared to $180 in the same period in 2021. The expense originated from the acquisition of PIGCO where intangible assets of $1,706 were attributed to the value of the sales backlog on the business combination and was being amortized into income. PIGCO sales backlog was amortized over a period of October 1, 2019, to December 31, 2021, and is now fully amortized.

The company recorded an impairment of intangibles of $nil (2021 - $768) in the fourth quarter of 2022. An impairment on indefinite life of intangible assets of $nil (2021 - $465) and an impairment on product testing costs of $nil (2021 - $303) based on the results of the Value in Use impairment test calculations.

The company's share of losses in Glavel Inc. was $34 (2021 - $nil). The company accounts for its equity in investment in Glavel using the equity method. Accretion costs were $106 in the fourth quarter of 2022 compared to $79 for the same period in 2021. In the fourth quarter of 2022 and 2021, the accretion expense entirely related to the host debt contract of the convertible debenture.

The April 2020 series convertible debentures were 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 $5 in the fourth quarter of 2022, compared to a $227 decrease in the fourth quarter of 2021.

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 appreciated resulting in an unrealized foreign exchange loss of $45, in the fourth quarter of 2022, compared to an unrealized foreign exchange loss of $60 in same period in 2021.

(in 000's Canadian Dollars)

Results of Operations – Annual

Comparison of the Year Ended December 31, 2022, and 2021:

		2022		2021		Change
Revenue	$	**29,003**	$	22,601	$	6,402
Gross margin	$	**2,518**	$	3,898	$	(1,379)
Operating expenses		**(7,257)**		(6,630)		(627)
Operating loss		**(4,739)**		(2,732)		(2,006)
Stock based compensation		**(610)**		(274)		(336)
Finance costs		**(755)**		(959)		204
Other income (expense)		**94**		470		(376)
Amortization of intangibles		**-**		(718)		718
Impairment of intangibles		**-**		(768)		768
Share of losses of Glavel Inc.		**(34)**		-		(34)
Accretion costs		**(391)**		(346)		(45)
Revaluation of earn-out liability		**-**		132		(132)
Fair value of derivatives		**(6)**		2,495		(2,501)
Loss before income taxes		**(6,441)**		(2,700)		(3,740)
Provision of deferred taxes		**903**		932		(29)
Provision of current taxes		**(23)**		(87)		64
Loss attributable to the common shareholder		**(5,561)**		(1,855)		(3,705)
Unrealized foreign exchange gain (loss) on translation of foreign subsidiaries		**1,112**		(85)		1,197
Comprehensive loss	$	**(4,449)**	$	(1,940)	$	(2,508)
Loss per common share						
Fully diluted loss per common share	$	**(0.042)**	$	(0.016)	$	(0.026)

Revenue for 2022 was $29,003 compared to $22,601 in the prior year, an increase of $6,402 or 28%. The increase in revenue was mainly due to the completion of several large tunnel grouting projects.

Gross Margin and Gross Margin Percentage were $2.5 million and 9%, respectively for 2022 compared to $3.9 million or 17% in 2021, a decrease of $1.4 million or 35%. The change in the gross margins is primarily the result of inflationary pressures and cement supply challenges on raw material costs that were not able to be passed onto clients.

Operating expenses for 2022 were $7,257 compared to $6,630 in the prior year, an increase of $627 or 9%. Operating expenses increased due to salaries, wages, and benefits because of annual increases and new hires in the Sales team; legal fees increased in 2022 due to the new credit facility and the Glavel investment; insurance costs increased due to higher premiums in 2022; travel & conferences, and marketing costs increased as the Company returned to pre-covid levels of marketing activities.

Stock-based compensation expense for 2022 was $610, compared to $274 in the prior year. The increase of $336 or 123% was largely due to new stock option grants to employees in the year. In addition, the Company issued RSU's in the second quarter of 2022, which also resulted in an increase in stock based compensation expense in the current period.

Finance costs for 2022 were $755 compared to $959 in 2021. The decrease of $204 or 21% is mainly attributed to the full year effect of lower finance costs because of repayment of principal of BDC loans and the conversion of the MOS convertible note. The decrease was partially offset by higher finance costs in the second half of 2022 attributed to higher foreign exchange and interest rates compared to the previous year.

Other income for 2022 was $94 compared to $470 in the prior year representing a decrease of $376. The change was primarily the result of a $270 reduction in other income for funds received under the Canadian Government's wage and rent subsidy programs, a $350 increase in foreign exchange losses resulting from appreciation of US dollar in the second half of 2022, and a $79 loss on sale of equipment. The income reduction was partially offset by $307 increase in interest income generated from short term investment income and from the Glavel Inc. convertible notes.

Amortization of intangibles for 2022 was $nil compared to $718 in the prior year. The expense originated because of acquisition of PIGCO where intangible assets of USD $1,706 were attributed to the value of the sales backlog on the business combination. PIGCO sales backlog was amortized over a period of October 1, 2019, to December 31, 2021, and is now fully amortized.

The company recorded an impairment of intangibles of $nil in 2022, compared to $768 impairment in the prior year. In 2021 an impairment based on the results of the Value in Use calculations was recorded on indefinite life of intangible assets of $465 and product testing costs of $303.

The company's share of losses in Glavel Inc. was $34 (2021 - $nil). The company accounts for its equity in investment in Glavel using the equity method. Accretion costs for 2022 were $391 compared to $346 in the prior year, an increase of $45 or 13%. Accretion expense relating to the remaining tranches of the earn-out liability was $nil (2021 - $53). Accretion on the host debt contract of the convertible debentures was $391 (2021 - $293). Accretion on the earn-out liability and MOS convertible note that originated from the acquisition of MOS and were originally recorded at a discount. Accretion ended at the maturity date of these liabilities on May 31, 2021. The convertible debenture was issued April 22, 2020, and has a maturity date of April 22, 2023.

The earn-out liability in relation to the MOS acquisition for the third 12-month period ended May 31, 2021 resulted in a gain of $nil ($133 in 2021). The MOS convertible debenture 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 MOS convertible note decreased by a net of $2,722 in 2021 resulting in a gain for the same amount.

The April 2020 Series 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 decreased by $6 in 2022, resulting in a loss for the same amount, compared to a decrease of $287 in 2021, resulting in a loss of 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 appreciated resulting in an unrealized foreign exchange gain of $1,112 in 2022. The opposite effect occurred in 2021 which resulted in an unrealized foreign exchange loss of $85.

(in 000's Canadian Dollars)

H. Selected Financial Information and Summary of Financial Results

The Company's business is seasonal in nature as it follows the construction season. Typically, revenues in the second half of the year are significantly greater than the first half of the year. The Company continues pursuing other markets where seasonality is less of an issue. This seasonality is reflected in the quarterly results summarized in the table below:

Quarters ended		Revenue		Comprehensive Income (Loss)		Income (Loss) Per Share Basic		Income (Loss) Per Share Diluted
2022 Year								
March 31	**$**	**5,123**	**$**	**(2,175)**	**$**	**(0.017)**	**$**	**(0.017)**
June 30		**4,022**		**(1,569)**		**(0.012)**		**(0.012)**
September 30		**11,556**		**585**		**(0.004)**		**(0.004)**
December 31		**8,303**		**(1,292)**		**(0.009)**		**(0.009)**
Total for year	**$**	**29,003**	**$**	**(4,449)**	**$**	**(0.042)**	**$**	**(0.042)**
2021 Year								
March 31	$	4,509	$	85	$	0.003	$	(0.011)
June 30		4,017		(571)		(0.004)		(0.004)
September 30		7,128		169		(0.001)		(0.001)
December 31		6,948		(1,626)		(0.009)		(0.009)
Total for year	$	22,601	$	(1,943)	$	(0.016)	$	(0.016)

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

I. Consolidated Statements of Financial Position

Results - Annual

Comparison for the year ended December 31, 2022, and 2021:

		2022		2021		Change
Current assets	$	**19,561**	$	26,437	$	(6,876)
Noncurrent assets		**21,256**		17,952		3,304
Total assets	$	**40,817**	$	44,389	$	(3,572)
Current liabilities	$	**10,165**	$	4,659	$	5,506
Noncurrent liabilities		**2,910**		8,149		(5,239)
Total liabilities	$	**13,075**	$	12,808	$	267
Shareholders' equity	$	**27,742**	$	31,581	$	(3,839)

Total current assets decreased by $6,876. This increase in aggregate is summarized below:

- Cash and restricted cash decreased by $9,549 (See the discussion in Section F - Consolidated Statement of Cash Flows).
- Trade and other receivables increased by $2,426 as a result of more activity during the fourth quarter, timing differences in the collections of trade receivables and sales, and larger retainage balance following Q3 2022 construction season.
- Inventory increased by $292 because of the purchase of foaming agent for future work in early Q1 2022.
- Prepaids and deposits decreased by $45 due to the timing of payment of annual memberships in trade organizations.

Total non-current assets decreased by $3,304. This decrease in aggregate is summarized below:

- Long-term investments increased by $2,382 because of five factors: $1,436 equity investment in Glavel Inc., $800 purchase of Glavel Convertible Notes, $49 accrued interest income from the Glavel Notes, $131 unrealized foreign exchange gain on the translation of the investment in Glavel Inc, partially offset by $34 share of losses of Glavel.
- Property and equipment increased by $1,043 because of equipment and vehicle additions of $1,934 and a $637 foreign exchange gain on the translation of assets held by our foreign denominated subsidiaries, partially offset by depreciation expense of $1,468, dispositions with a net book value of $60.
- Right of use assets under finance lease decreased by $509 because of depreciation expense of $584 and dispositions with a net book value of $35, partially offset by lease building additions of $52 and a $58 foreign exchange gain on the translation of assets held by our foreign denominated subsidiaries.
- Goodwill and intangibles assets increased by $394 foreign exchange gain on the translation of assets held by our foreign denominated subsidiaries.
- Convertible debt – derivative asset decreased by $6 due to being revalued. At December 31, 2022, the convertible debenture forced conversion feature, which is a derivative asset had a carrying value of $21, compared to $27 as at December 31, 2021.

Total current liabilities increased by $5,506. This decrease in aggregate is summarized below:

- Trade and other payables increased by $1,935 largely due to increased operations during the fourth quarter of 2022 compared to Q4 2021.
- 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 with a maturity of April 22, 2023. On issuance, the convertible debenture was trifurcated into a host debt contract, forced conversion and equity features. At December 31, 2022, the convertible debenture host debt contract had an aggregate carrying value of $3,499.
- Current portion of long-term debt increased by $60 because of foreign exchange rate increase on BDC USD denominated loans.
- Current portion of finance lease obligations remained largely consistent from prior year with a $12 or 2% increase.

(in 000's Canadian Dollars)

Total non-current liabilities decreased by $5,239. This decrease in aggregate is summarized below:

- The April 22, 2020, convertible debt was reclassified from long-term to current, resulting in a reduction in non-current liabilities of $3,499.
- Long term debt decreased $574 because of repayments in USD denominated BDC Loans partially offset by unrealized foreign exchange gains on the translation of foreign denominated leases.
- Finance lease obligations decreased $532 because of lease payments partially offset by unrealized foreign exchange gains on the translation of foreign denominated leases.
- The deferred tax liability decreased by $849 primarily due to losses in our US operations which created a deferred tax asset for net operating losses that was offset against previously existing deferred tax liabilities for property and equipment and ultimately reducing deferred tax liabilities.

Shareholders' Equity decreased by $3,839. This increase in aggregate is summarized below:

- Share capital increased $1 due to an exercise of restricted share units.
- Contributed surplus increased by $609 due to the amortization of stock-based compensation on options and restricted share units.
- Accumulated other comprehensive loss increased by $1,112 due to the unrealized foreign exchange loss on the translation of MOS, PIGCO and CEMATRIX (USA) Inc. as the USD depreciated versus the Canadian dollar.
- The Deficit increased by $5,561 due to the loss to common shareholders for the year ended December 31, 2022.

For additional information please see the Consolidated Statements of Shareholders' Equity included in the Consolidated Financial Statements.

J. Consolidated Statements of Cash Flows

Cash Flow – Fourth Quarter

The cash position of the Company as at December 31, 2022, was $10,682 (consisting of cash in the bank of $10,682 and restricted cash of $nil) compared to a cash position of $20,231 (consisting of cash in the bank of $19,945 and restricted cash of $286) as at December 31, 2021.

The change in cash in the fourth quarter of 2022 was a decrease of $1,564 as compared to a decrease of $302 in the same period of 2021. This change is outlined in the table:

		2022		2021		Change
Cash generated from (used in) operating activities						
Cash flow from operating activities	**$**	**(708)**	$	75	$	(783)
Net change in non-cash working capital items		**755**		641		114
		47		716		(669)
Cash used in investing activities		**(635)**		(164)		(471)
Cash used in financing activities		**(921)**		(855)		(66)
Foreign exchange effect on cash		**(55)**		1		(56)
Increase (decrease) in cash		**(1,564)**		(302)		(1,262)
Cash at beginning of period		**12,246**		20,533		(8,287)
Cash at end of period	**$**	**10,682**	$	20,231	$	(9,549)

Cash generated from operating activities decreased by $669 due to the following:

- Cash flow before non-cash working capital adjustments decreased by $783 primarily because of lower gross margins and higher SG&A costs primarily due to inflationary pressures and cement supply challenges on raw material costs that were not able to be passed onto clients.
- Net change in non-cash working capital items increased by $114, primarily due to the level of trade receivables vs trade payables generated in the respective periods and the timing of their collection and payment.

Cash used in investing activities increased by $471 due to the following:

- The company increased its investment in Glavel by $85 through the exercise of warrants acquired as part of the April 2022 series Glavel convertible notes.
- Property and equipment additions increased by $368 mainly due to higher costs for purchase of equipment during the quarter.
- Proceeds from property and equipment dispositions were $18.

Cash used in financing activities increased by $66 due to the following:

- Repayment of finance lease obligations remained consistent.
- Interest paid increased slightly due to rising interest rates and foreign denominated BDC loan payments.
- Repayment of long-term debt increased by $60 in the fourth quarter due to the rising foreign exchange rates on USD denominated BDC loans.
- Proceeds from the exercise of stock options and warrants decreased $16 due to no activity in 2022 versus 2021.

(in 000's Canadian Dollars)

Cash Flow – Year

The cash position of the Company as at December 31, 2022, was $10,682 (consisting of cash in the bank of $10,682 and restricted cash of $nil) compared to a cash position of $20,231 (consisting of cash in the bank of $19,945 and restricted cash of $286) as at December 31, 2021.

The change in cash in the year 2022 was a decrease of $9,549 as compared to an increase of $17,470 in the same period of 2021. This change is outlined in the table:

		2022		2021		Change
Cash generated from (used in) operating activities						
Cash flow from operating activities	$	**(2,617)**	$	(744)	$	(1,873)
Net change in non-cash working capital items		**(588)**		(90)		(498)
		(3,205)		(834)		(2,371)
Cash used in investing activities		**(4,037)**		(619)		(3,418)
Cash generated from financing activities		**(2,312)**		18,954		(21,266)
Foreign exchange effect on cash		**5**		(31)		36
Increase in cash		**(9,549)**		17,470		(27,01 9)
Cash at beginning of period		**20,231**		2,761		17,470
Cash at end of period	$	**10,682**	$	20,231	$	(9,549)

Cash used in operating activities increased by $2,371.

- Cash flow before non-cash working capital adjustments decreased by $1,873 was due to lower gross margins and higher SG&A costs primarily due to inflationary pressures and cement supply challenges on raw material costs that were not able to be passed onto clients.
- Net change in non-cash working capital items decreased by $498 primarily due to the level of trade receivables vs trade payables generated in the respective periods and the timing of their collection and payment.

Cash used in investing activities increased by $3,418.

- Long-term investment increased by $2,241 as the company made investments in Glavel Inc. via equity and convertible notes.
- Property and equipment additions were $1,209 higher due to the purchase of equipment and trucks during the year.
- Proceeds from property and equipment dispositions were $31 higher as the company disposed of retired trucks.

Cash generated from financing activities decreased by $21,266.

- In 2022 the Company used $2,312 in financing activities. This was mainly due to $926 repayment of long-term debt, $755 on interest payments and repayments of $631 on lease obligations.
- In 2021 the Company generated $18,954 from financing activities. This was mainly due to proceeds from public offering of $20,890 and $4,147 of proceeds from the exercise of options and warrants. This was partially offset by $2,047 repayment of earn-out liability, $319 repayment of long-term debt, $977 on interest payments and repayments of $129 on bank operating loan and $1,000 on secured debenture and $611 on lease obligations.

K. 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.

On December 31, 2022, the Company had cash balances of $10,682 versus $20,231 at December 31, 2021. The Company's Adjusted Net Working Capital was $3,741 at December 31, 2022 compared to $3,002 at December 31, 2021.

The convertible debentures that were issued in April 2020 have a maturity date of April 2023. As a result, these debentures have been moved into current liabilities. The Company has set aside funds in cash to ensure the Company has sufficient funds to repay these debentures when they come due in April 2023.

In 2022, CEMATRIX entered into a new financing arrangement with the Canadian Imperial Bank of Commerce (the "Bank" or "CIBC") to provide 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, PIGCO, and MOS. 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 December 31, 2022, was $5,000 of which $nil was outstanding ($nil – December 31, 2021). The availability on the credit facility is decreased for the amount of outstanding letters of credit of which there was $1,387 outstanding as at December 31, 2022.

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 EBTIDA ratios are tested quarterly and the debt service coverage ratio is tested annually. As at December 31, 2022, CEMATRIX was in compliance with the current ratio financial covenant, but not in compliance with the debt to EBITDA ratio and debt service coverage ratio. CIBC provided a tolerance for this covenant breach for the period up to and including December 31, 2022

This new credit facility replaces the previous credit facility that was in place with the CWB. The new credit facility allows the Company to borrow against the receivables and inventory of both its Canadian and US operating subsidiaries. As a result, the new Credit Facility is now better sized and better aligned with the overall Company. The planned use for the Credit Facility is to allow the Company to manage short-term working capital increases associated with the inherent seasonality of the business. Management does not expect at this time to use the Credit Facility to finance acquisitions, other investments or the purchases of new equipment.

The new credit facility has three financial covenants that must be maintained on a consolidated basis two of which are tested quarterly and one of which is tested annually (refer to Appendix C for detailed calculations):

- Current ratio not less than 1.25, tested quarterly. This is the ratio of current assets to current liabilities. As at December 31, 2022, the Company is compliant with this covenant.
- Debt to EBITDA ratio of not more than 3.0 times, tested quarterly. This is a ratio of all long term debt divided by the rolling 12 months Adjusted EBITDA. The calculation for Adjusted EBITDA is illustrated in Appendix B. As at December 31, 2022 the Company is not compliant with this covenant.
- Debt Service Coverage ratio of not less than 1.50 times, tested annually. This ratio is calculated by taking Adjusted EBITDA divided by the sum of all debt service costs (principle, interest, cash taxes, dividends and distributions). As at December 31, 2022 the Company is not compliant with this covenant.

The USD BDC Financing Loans have a consolidated fixed charge coverage ratio financial covenant which is tested annually. At December 31, 2022, the Company was not compliant 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. This covenant will be tested again at December 31, 2023.

Capital resources

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

The Company defines its capital as the long term debt, the lease obligations and shareholders' equity. The current objective of the Company is to manage its capital through growth in earnings and to re-invest the earnings generated to facilitate the continued growth in the Company, in order to provide an appropriate rate of return to shareholders in relation to the risks underlying the Company's assets. The consolidated capital of the Company, as outlined in Note 27 - Capital Management to the Consolidated Financial Statements, was $34,726 on December 31, 2022, as compared to $39,975 on December 31, 2021 (see Section E. Consolidated Statements of Financial Position for details).

L. Off Balance Sheet Arrangements

There were no off balance sheet arrangements on December 31, 2022.

M. Transactions with Related Parties

During the year ended December 31, 2022, the Company incurred legal fees from a firm which employs one of the directors of the Company in the amount of $15 (2021 - $7) of which $1 (2021 - $nil) is in trade and other payables as at December 31, 2022.

N. Critical Accounting Judgements, 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 judgements 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, 2022. There have been no changes since that date.

O. Changes in Accounting Policies including Initial Adoption

New accounting policies

There are no new standards issued but not yet effective as of January 1, 2023, that have a material impact to the Company's consolidated financial statements.

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 2022 that significantly impact the Company.

P. Financial Instruments

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

Other financial liabilities

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

Equity instruments

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

Fair values of 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 long-term investment in convertible notes 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 the 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 as 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 number 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 investment in convertible notes, embedded derivatives related to the forced conversion, prepayment and conversion features on the convertible debt are measured based on level 2.

Level 3 – Valuations in this level are those with inputs for the assets or liabilities that are not based on observable market data. 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 totaled $2,912 on December 31, 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 $29 excluding the effect of income taxes.

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.

Liquidity Risk

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

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

	Less than 1 year	1 to 2 years	2 to 6 years	Total
As at December 30, 2022				
Trade and other payables	**$ 5,139**	**$ -**	**$ -**	**$ 5,139**
Long-term debt	**937**	**864**	**1,111**	**2,912**
Lease obligations	**590**	**545**	**29**	**1,164**
Convertible debt	**3,499**	**-**	**-**	**3,499**
	$ 10,165	**$ 1,409**	**$ 1,140**	**$ 12,714**
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

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 and the operations of its US subsidiary which are predominantly in USD. The Company does not hedge these items as the timing of related transactions is not certain.

As at December 31, 2022, and 2021, the following balances were denominated in USD:

(in 000's US Dollars)	**2022**	2021
Cash and cash equivalents	**$ 361**	$ 745
Trade and other receivables	**3,879**	2,046
Prepaid expenses and deposits	**122**	192
Long-term investments	**1,759**	-
Trade and other payables	**(2,849)**	1,440
Long term debt	**(1,400)**	1,866
Lease obligations	**$ (574)**	$ 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 December 31, 2022, a 1% increase/decrease of the USD against the Canadian dollar would result in an increase/decrease in net loss of approximately $18.

(in 000's Canadian Dollars)

Q. Disclosure of Outstanding Share Data

As at December 31, 2022, and April 12, 2023, the following is a description of the outstanding equity securities and convertible securities previously issued by the Company:

	Authorized	**Outstanding as at December 31, 2022**	**Outstanding as at April 12, 2023**
Voting or equity securities issued and outstanding	Unlimited Common Shares	133,948,710 Common Shares	134,035,860 Common Shares
Securities convertible or exercisable into voting or equity securities – stock options	Incentive equity plans up to 10% of outstanding Common Shares	Stock options to acquire 4,603,333 Common Shares at an exercise price at between $0.19 - $0.59	Stock options to acquire 4,603,333 Common Shares at an exercise price at between $0.19 - $0.59
Securities convertible or exercisable into voting or equity securities – Restricted Stock Units ("RSU's")	Incentive equity plans up to 10% of outstanding Common Shares	RSU's to acquire 980,695 Common Shares	RSU's to acquire 890,545 Common Shares
Securities convertible or exercisable into voting or equity securities – share purchase warrants	As approved by the board	Share purchase warrants to acquire 20,067,717 Common Shares at an exercise price at between $0.45 - $0.81	Share purchase warrants to acquire 1.667,725 Common Shares at an exercise price of $0.45
Unit securities (Broker Warrants) convertible or exercisable into voting or equity securities – units	As approved by the board	The right to acquire 3,739,068 units at prices between $0.40 and $0.65. Each unit is comprised of one common share and a half share purchase warrant	The right to acquire 908,300 units at prices of $0.40. Each unit is comprised of one common share and a half share purchase warrant
Convertible debentures convertible into voting or equity securities - units	As approved by the board	$3,589,000 convertible debentures, convertible into 8,972,500 units. Each unit consists of one Common Share and a half share purchase warrant to acquire one Common Share at $0.45	$3,589,000 convertible debentures, convertible into 8,972,500 units. Each unit consists of one Common Share and a half share purchase warrant to acquire one Common Share at $0.45

R. Outlook

Management's outlook remains very positive. Inflationary pressures and supply chain challenges significantly impacted the company in 2022. The Company expects these challenges to continue into 2023 but improve. The Company continues to be focused on the execution of its strategic plan. The 2021 financing continues to provide management with the means to execute its strategy beyond continued strong organic growth. This strategy includes the simplifying and de-levering of the balance sheet; regional expansion, particularly in the United States where the cellular concrete market continues to experience strong growth; and the pursuit of acquisitions of other cellular concrete applicators, specialty suppliers and/or other complimentary companies provided that they add value to CEMATRIX and its shareholders.

The acquisitions we completed in the past have established CEMATRIX as the clear leader in its industry, which from a micro-economic perspective should allow the company to increase its market share, cash flow and profitability regardless of the changes in the macro-economic environment. We continue to look for further acquisition opportunities that fit our strategic plan to accelerate our growth.

In early 2022, we announced a $4.0 million USD investment commitment to Glavel, Inc ("Glavel"). To date, we have completed investments of $1.7M USD into Glavel. Glavel is a foamed glass company operating in the NE USA. Foamed glass is an ultra-light weight material with insulating properties made from recycled glass. Foamed glass competes with or is a complimentary product to cellular concrete in certain applications. The Company is excited about the potential for foam glass and views the investment in Glavel as a key step forward in the execution of our growth strategy.

Cement supply chain challenges that began to impact the Company in select key markets in the second quarter continued for the remainder of the year. We expect these cement supply challenges to continue into 2023 in select markets. Our partners in the supply of cement and ready-mix have communicated to the Company that they also expect the supply challenges to persist into 2023 but improve versus 2022 except for in certain markets (such as Chicago / Detroit). However, they do expect that they will slowly come to an end in late 2023 as residential construction, which is significant driver of cement demand, slows due to a general economic slowdown caused by increasing interest rates and increasing inflation.

Despite these cement supply chain issues, we delivered record revenue the year and expect 2023 to be very strong due our backlog of projects with several large projects slated to be completed in 2023.

In summary, the company's financial sustainability remains strong. The Company continues to announce new project awards to maintain our backlog. We are excited about the addition of Glavel and its foamed glass product to the CEMATRIX family. We remain committed to our strategy and expect to see more of our efforts come to fruition in 2023 and beyond.

Appendix A – Forward Looking Statements

The forward-looking statements in the MD&A for the three and twelve months ended December 31, 2023, 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 2022; sales forecasts include work which is under contract or Verbally Awarded for 2022, as well as probability adjusted forecasts for projects on which the Company has placed or will place bids in the coming year, where the probabilities applied to the sales forecast are based on management's assessment of the particular project based on historical experience and the stage the project is in the sales cycle. There are a number of risks that could affect these assumptions which include: contracted work is delayed; the failure of 2021 sales to materialize, because of project delays or cancellations or because CEMATRIX's cellular concrete is not specified into projects, management's assumptions in applying probabilities to the various projects in the sales forecast are incorrect, and product acceptance in new markets takes longer than anticipated resulting in reduced sales.

Appendix B – Non-IFRS Measures

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

Sales Pipeline:

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

Backlog:

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

Adjusted Net Working Capital:

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

(in 000's Canadian Dollars)

Appendix B – Non-IFRS Measures *(continued)*

Adjusted net working capital for the years ended December 31, 2022, and 2021 were as follows:

		2022		2021
Current Assets	$	**19,561**	$	26,437
Current Liabilities		**(10,165)**		(4,659)
Net working Capital		**9,396**		21,778
Adjustments				
Cash and cash equivalents		**(10,682)**		(19,945)
Restricted cash		**-**		(286)
Current portion of long-term debt		**937**		877
Current portion of lease obligations		**590**		578
Current portion of convertible debt – host debt		**3,499**		-
Adjusted Net Working Capital	$	**3,740**	$	3,002

EBITDA

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

Adjusted EBITDA

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

Adjusted EBITDA for the three and twelve months ended December 31, 2022, and 2021 were as follows:

	Three months ended December 31				Twelve months ended December 31			
		2022		2021		**2022**		2021
Net income (loss)	**$**	**(1,247)**	$	(1,566)	**$**	**(5,561)**	$	(1,855)
Finance costs		**215**		189		**755**		959
Depreciation and amortization		**508**		612		**1,856**		2,485
Impairment of intangibles		**-**		768		**-**		768
Provision of deferred / current taxes		**(713)**		(316)		**(880)**		(845)
EBITDA		**(1,237)**		(313)		**(3,830)**		1,512
Unrealized foreign exchange (gain) loss		**146**		(1)		**116**		(160)
Accretion costs		**106**		79		**391**		345
Revaluation of derivatives		**(5)**		227		**6**		(2,495)
Revaluation of earn-out liability		**-**		-		**-**		(132)
Share of losses of Glavel Inc.		**34**		-		**34**		-
Stock based compensation		**147**		91		**610**		274
Adjusted EBITDA	**$**	**(809)**	$	83	**$**	**(2,673)**	$	(656)

(in 000's Canadian Dollars)

Appendix C – Covenant Calculations

		As at December 31 2022
CIBC Covenants		
CURRENT RATIO		
Formula: Current Assets / Adjusted Current Liabilities		
Current Assets	$	**19,561**
Current liabilities		**10,165**
Current Ratio		**1.92**
Covenant tested quarterly, not less than		**1.25**
		Covenant Met
DEBT TO EBITDA RATIO		
Formula: Adjusted Debt / EBITDA		
Adjusted Debt		
Current portion – long term debt	$	**937**
Long term debt		**1,975**
Adjusted long term debt		**2,912**
Adjusted EBITDA (Rolling 12 months)		**(2,673)**
Debt to EBITDA Ratio		**(1.09)**
Covenant tested quarterly, not to exceed 3x		**3.00**
		Covenant Not Met
DEBT SERVICE COVERAGE RATIO		
Formula: EBITDA / Debt Service		
Rolling 12 month EBITDA		**(2,673)**
Interest paid		**755**
Repayment of finance lease obligations		**631**
Repayment of long term debt		**926**
Current taxes		**23**
Total interest, principal repayments, & cash taxes		**2,335**
Debt Service Coverage Ratio		**(1.14)**
Covenant tested annually, not less than 1.5		**1.50**
		Covenant Not Met