

CEMATRIX™

Lightweight Fill Solutions

CEMATRIX CORPORATION

Management's Discussion and Analysis

For the Three and Six Months Ended June 30, 2023

(in 000's Canadian dollars)

CEMATRIX CORPORATION
www.cematrix.com

Form 51-102F1 - Management's Discussion & Analysis
For the Three and Six Months Ended June 30, 2023

The following is the management's discussion and analysis ("MD&A") of CEMATRIX Corporation ("CEMATRIX" or the "Company") for the three and six months ended June 30, 2023. This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company for the three and six months ended June 30, 2023, (the "Interim Condensed 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, 2022, and related notes thereto. The Interim Condensed 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 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 Interim Condensed Consolidated Financial Statements and MD&A for the three and six months ended June 30, 2023. The Board of Directors of the Company reviewed and approved the Interim Consolidated Financial Statements and MD&A on August 9, 2023.

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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 E – Key Market Drivers and in Section F – Key Risks and Uncertainties of its MD&A for the year ended December 31, 2022, 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 six months ended June 30, 2023, the Company's financial condition as at June 30, 2023, and its future prospects.

B. Highlights

Another Quarter of Revenue Growth & Improving Gross Margins

The second quarter is generally the start of construction season in many of the key markets that the Company operates as winters ends and springs begins and the weather warms. We saw significant revenue growth in the second quarter of 2023 compared to 2022 and when combined with the first quarter resulted in continued record revenues for the first six months. This increase in revenue is attributable to our investment in sales resources and resulting success of our sales teams, and the continuing growing market acceptance of cellular concrete.

The inflationary pressures across all facets of our business which led to lower gross margins in 2022 have stabilized, as the measures taken by central banks in Canada and the US have been successful at slowing the pace of inflation. The cement and ready-mix supply situation has improved as well. As a result, the Company experienced improved margins in the second quarter of 2023.

Cement Supply Challenges Significantly Improved

Cement is the number one material used in the creation and production of cellular concrete. In recent years, cement and ready-mix supply was generally available and at worst was able to be procured within a couple of weeks of requirements. In 2022 this changed in most North American markets and our business was significantly impacted by the lack of availability of cement and ready-mix in certain markets and an increase in cost of cement and ready-mix. The Company's cement and ready-mix suppliers have indicated that they do expect the availability of cement and ready-mix to improve significantly in 2023. In the second quarter and first half of the year, we have witnessed this firsthand as cement and ready-mix pricing has stabilized and availability has improved. Our cement and ready-mix suppliers have shared with the Company that this improvement is due to two factors. The first is related to reduced demand due to the impact on residential construction from rising interest rates and the second is cement suppliers successfully working through their own supply chain challenges.

Inflationary Pressures Continue to Ease

The measures to increase interest rates undertaken by the Central Banks in Canada and the USA have been successful at slowing the pace of inflation. This has helped the Company contain some of the rising costs that impacted the Company in 2022. The Company has also improved its contracting process to provide protection from future unexpected cement price increases and to reduce the impact of such increases on 2023 and future margins. Even with these positive changes, the Company still expects to see significant inflationary pressure on lagging inflationary items such as salaries and wages in 2023 as they now have to be adjusted to account for the inflation that was experienced by our employees in 2022.

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. Delivery of the second unit is delayed and is now expected in Q4 2023. These new units also have the added benefit of allowing us to do more projects with dry-mix instead of ready-mix which allows for the Company to be more competitive in the small to medium sized projects.

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Full Year 2023 Forecast

The record revenue in the first half of 2023 is expected to continue throughout 2023 and has set the Company up for a record year. In addition, the Company also expect gross margins to continue to improve in 2023 versus the prior year, as higher revenues allow for fixed costs to be covered sooner. In addition, as inflationary pressures ease and project profitability improves with changes in the availability of cement and ready-mix supply.

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. With the forecasted record revenue in 2023 we are also forecasting a return to profitability with positive cashflow from operations.

Growing Backlog

The Company continues to see a strong bid pipeline and be awarded new projects. The Company continues to win new work / projects as our investment in equipment and sales resources coupled with our sales strategies is providing a compelling story to our customers to choose cellular concrete and to choose CEMATRIX.

The addition of new contracts less revenue recognised has resulted in our backlog increasing to \$99.4 million as of last news release dated July 19, 2023. 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 the last half of 2023 including our largest contract executed with a large general contractor for the backfill of several new overpasses along a freeway corridor in North Carolina, although most of this project is now scheduled to be completed in 2024.

Financial Review – Second Quarter

Revenues were \$6.2 million for the second quarter of 2023, an increase of \$2.2 million or 55%, compared to \$4.0 million in the second quarter of 2022. The increase in revenue was due increased project revenue in both Canada and the US. The revenue generated in the second quarter of 2023 from our US businesses amounted to \$4.3 million, while Canadian sales amounted to \$1.9 million.

Gross Margin was \$1.1 million in the second quarter of 2023, compared to negative \$0.1 million in the second quarter of 2022, an increase of \$1.0 million. Gross Margin (as a percentage of revenue) increased to 18% in the first quarter of 2023 compared to negative 1% in the comparative period. The increase in Gross Margin and Gross Margin percentage is due to higher revenues offsetting fixed costs and stronger margins on projects delivered in the quarter compared to the prior year as inflationary pressures and cement supply challenges stabilized.

Adjusted EBITDA was negative \$0.4 million in the second quarter of 2023 compared to negative \$1.3 million in the same period of 2022. The improvement in adjusted EBITDA was due primarily to higher revenues and higher gross margins as inflationary pressures and supply challenges eased in early 2023.

The Company cash flow used in operating activities was \$1.6 million in the second quarter of 2023, compared to \$2.0 million in the same period of 2022.

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Financial Review – Year to Date

Revenue were a record \$13.3 million in the first six months of 2023, an increase of \$4.2 million or 46% compared to the comparable period of 2022. The increase in revenue was due increased project revenue in both Canada and the US. Revenue generated in the first six months of 2023 from US operations amounted to \$9.9 million while sales from Canadian operations amounted to \$3.4 million.

Gross Margin and Gross Margin Percentage were \$1.9 million and 14% respectively for 2023, compared to negative \$0.1 million or negative 1% in 2022, an increase of \$2.0 million. The change in the gross margins was due to higher revenues generating increased projects margins to offset fixed costs and higher margins on projects in 2023 compared to margins on projects in 2022.

Adjusted EBITDA in the first six months of 2023 was a negative \$1.1 million, compared with Adjusted EBITDA of negative \$2.7 million in the same period in 2022, for an improvement of \$1.6 million, mainly due to higher revenues and higher gross margins.

Cash used in operating activities of \$1.9 million in the first six months of 2023, compared to cash used in operating activities of \$2.7 million in the same period in 2022.

C. Operations and Overall Performance

Results of Operations – Second Quarter

Comparison of the three months ended June 30, 2023, with the same period in 2022:

	Three Months Ended June 30,		
	2023	2022	Change
Revenue	\$ 6,185	\$ 4,022	\$ 2,163
Gross margin	\$ 1,141	\$ (52)	\$ 1,193
Operating expenses	(2,094)	(1,937)	(157)
Operating income (loss)	(953)	(1,989)	1,036
Stock based compensation	(150)	(165)	15
Finance costs	(119)	(161)	42
Other income (expense)	71	325	(254)
Accretion costs	(28)	(94)	66
Fair value of derivatives	-	(7)	7
Loss before income taxes	(1,179)	(2,091)	912
Provision of deferred taxes	231	472	(241)
Provision of current taxes	(15)	-	(15)
Loss attributable to the common shareholder	(963)	(1,619)	656
Unrealized foreign exchange gain (loss) on translation of foreign subsidiaries	(471)	50	(521)
Comprehensive income (loss)	\$ (1,434)	\$ (1,569)	\$ 135
Fully diluted gain (loss) per common share	\$ (0.007)	\$ (0.012)	\$ 0.005

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Revenues were \$6.2 million for the second quarter of 2023, an increase of \$2.2 million or 46%, compared to \$4.0 million in the second quarter of 2022. The increase in revenue was due increased project revenue in both Canada and the US. The revenue generated in the second quarter of 2023 from our US businesses amounted to \$4.3 million, while Canadian sales amounted to \$1.9 million.

Gross Margin was \$1,141 in the second quarter of 2023, compared to negative \$52 in the second quarter of 2022, an increase of \$1,193. Gross Margin percentage increased to 18% in the second quarter of 2023 compared to negative 1% in comparative period. The increase in Gross Margin and Gross Margin percentage is due to higher revenues offsetting fixed costs and stronger margins on projects delivered in the quarter compared to the prior year as inflationary pressures and cement supply challenges stabilized.

Operating expenses (SG&A) were \$2,094 in the second quarter of 2023 compared to \$1,937 in the same period in 2022, an increase of 8% mainly due to an increase in salaries & wages, insurance, and marketing costs; partially offset by reductions in legal and consulting expenses.

Stock-based compensation expense of \$150 for the second quarter of 2023 compared to \$165 during the second quarter of 2022.

Finance costs were \$119 in the second quarter of 2023 compared to \$161 in the same period in 2022, a decrease of \$42 or 26%. The decrease is attributable to the repayment in April of the 2020 Convertible debentures, partially offset by higher interest rates on our long term debt with the BDC.

Other income was \$71 in the second quarter of 2023 compared to \$325 in the second quarter of 2022. In the second quarter of 2023, other income consisted of interest income of \$91, gain on sale of equipment of \$25, and partially offset by foreign exchange loss of \$47. For the same period in 2022, other income consisted of an foreign exchange gain of \$232, and interest income of \$100.

Accretion costs were \$28 in the second quarter of 2023 compared to \$94 for the same period in 2022. Accretion expense is entirely related to the host debt contract of the convertible debenture that were repaid in mid April 2023. With the repayment of the convertible debentures the Company does not expect to have accretion expense going forward.

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 depreciated resulting in an unrealized foreign exchange loss of \$471, in the second quarter of 2023, compared to an unrealized foreign exchange gain of \$50 in same period in 2022.

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Results of Operations – Year to Date

Comparison of the six months ended June 30, 2023, with the same period in 2022:

	Six Months Ended June 30,		
	2023	2022	Change
Revenue	\$ 13,367	\$ 9,145	\$ 4,222
Gross margin	\$ 1,887	\$ (121)	\$ 2,008
Operating expenses	(4,016)	(3,686)	(330)
Operating income (loss)	(2,129)	(3,807)	1,678
Stock based compensation	(282)	(294)	12
Finance costs	(288)	(322)	34
Other income (expense)	(2)	285	(287)
Accretion costs	(138)	(184)	46
Fair value of derivatives	(21)	(7)	(14)
Loss before income taxes	(2,860)	(4,329)	1,469
Provision of deferred taxes	243	498	(255)
Provision of current taxes	(15)	-	(15)
Loss attributable to the common shareholder	(2,632)	(3,831)	1,199
Unrealized foreign exchange gain (loss) on translation of foreign subsidiaries	(489)	87	(576)
Comprehensive income (loss)	\$ (3,121)	\$ (3,744)	\$ 623
Fully diluted gain (loss) per common share	\$ (0.020)	\$ (0.029)	\$ 0.009

Revenue in the first half of 2023 was \$13.4 million compared to \$9.1 million in the first half of 2022 an increase of 46% or \$4.2 million. The increase in revenue was due increased project revenue in both Canada and the US as the Company's investment in sales resources and sales strategies continues to drive revenue growth.

Gross Margin was \$1,887 in the first six months of 2023, an increase of \$2,008, compared to a Gross Margin of negative \$121 in the prior year period. As a percentage of revenues, the Gross Margin Percentage increase to 14% compared to negative 1% in 2022. The increase in the gross margins was due to higher revenues generating increased projects margins to offset fixed costs and higher margins on projects in 2023 compared to margins on projects in 2022.

Operating (SG&A) expenses were higher by \$330 or 9% mainly due to an increase in salaries & wages, insurance, and marketing costs; partially offset by reductions in legal and consulting expenses.

Stock based compensation expense was \$282 in the first six months of 2023 compared to \$294 in the prior year period. The increase of \$12 was largely due to new stock option grants to employees in April 2023, mostly offset by RSU's issued in the second quarter of 2022.

Finance costs were \$288 in the first six months of 2023 compared to \$322 in the same period in 2022, a decrease of \$34. The decrease is attributable to the repayment in April of the 2020 Convertible debentures, partially offset by higher interest rates on our long term debt with the BDC.

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Other income (expense) was \$(2) in the first six months of 2023 compared to income of \$285 for the same period in 2022. Other income (expense) for the first six months of 2023 primarily consisted of interest income of \$212, gain on sale of equipment of \$29, and offset by foreign exchange loss of \$245. For the same period in 2022, other income consisted of a foreign exchange gain of \$123, interest income of \$100, and gain on sale of equipment of \$43.

Accretion costs were \$138 in the first half of 2023 compared to \$184 for the same period in 2022. Accretion expense is entirely related to the host debt contract of the convertible debenture that were repaid in mid April 2023. With the repayment of the convertible debentures the Company does not expect to have accretion expense going forward.

The convertible debenture 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 \$21 in 2023, resulting in a loss for the same amount, compared to an decrease of \$7 in the first half of 2022.

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 \$489 in the first six months of 2023. An opposite effect occurred in the first half of 2022 which resulted in an unrealized foreign exchange gain of \$87.

D. 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. This seasonality is reflected in the quarterly results summarized in the table below:

Quarters ended	Revenue	Comprehensive Income (Loss)	Income (Loss) Per Share Basic	Diluted
2023 Year				
March 31	\$ 7,182	\$ (1,687)	\$ (0.012)	\$ (0.012)
June 30	6,185	(1,434)	(0.007)	(0.007)
Total for year	\$ 13,367	\$ (3,321)	\$ (0.020)	\$ (0.020)
2022 Year				
March 31	\$ 5,122	\$ (2,174)	\$ (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)

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.

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E. Consolidated Statements of Financial Position

Comparison of the financial position as at June 30, 2023, compared to December 31, 2022:

	2023		2022		Change
Current assets	\$ 9,703	\$	19,561	\$	(9,858)
Non-current assets	21,205		21,256		(51)
Total assets	\$ 30,908	\$	40,817	\$	(9,909)
Current liabilities	\$ 3,304	\$	10,165	\$	(6,861)
Non-current liabilities	2,701		2,910		(209)
Total liabilities	\$ 6,005	\$	13,075	\$	(7,070)
Shareholders' equity	\$ 24,903	\$	27,742	\$	(2,839)

Total current assets decreased by \$9,858. This increase in aggregate is summarized below:

- Cash decreased by \$7,163 (See the discussion in Section F - Consolidated Statement of Cash Flows).
- Trade and other receivables decreased by \$2,390. Accounts receivables increase during periods of higher revenue and then decline in periods of lower revenue as the amounts are collected.
- Inventory decreased by \$75 as foaming agent was used in the production of cellular concrete.
- Prepays and deposits decreased by \$230 due to the amortization of insurance premiums that were prepaid in 2022.

Total non-current assets increased by \$51. This increase in aggregate is summarized below:

- Long-term investments decreased by \$19 due to: \$35 accrued interest income from the Glavel Notes, offset by \$54 unrealized foreign exchange loss on the translation of the investment in Glavel Inc.
- Property and equipment decreased by \$32 because of equipment and vehicle additions of \$1,053, offset by depreciation expense of \$755, dispositions with a net book value of \$44, and by a \$286 foreign exchange loss on the translation of assets held by our foreign denominated subsidiaries.
- Right of use assets under finance lease increased by \$159 due to building and vehicle additions of \$498, offset by depreciation expense of \$320 and \$19 foreign exchange loss on the translation of assets held by our foreign denominated subsidiaries.
- Goodwill and intangibles assets decreased by \$138 foreign exchange loss on the translation of assets held by our foreign denominated subsidiaries.
- Convertible debt – derivative asset decreased by \$21 as the convertible debenture forced conversion feature was reduced to zero because of the repayment in April 2023.

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Total current liabilities decreased by \$6,861. This decrease in aggregate is summarized below:

- Trade and other payables decreased by \$3,356 largely as a result of the timing difference in payments largely as a result of the timing difference in payments.
- 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. The Convertible debenture was repaid on maturity, resulting in a decrease to current liabilities of \$3,499.
- Current portion of long-term debt decreased by \$21 because of foreign exchange rate decrease on BDC USD denominated loans.
- Current portion of finance lease obligations increased by \$15 due to new finance leases on buildings and vehicles.

Total non-current liabilities decreased by \$209. This decrease in aggregate is summarized below:

- Long term debt decreased \$44 because of unrealized foreign exchange gains on the translation of foreign denominated debt.
- Finance lease obligations increased \$102 due to building and vehicle additions of \$498, offset by \$22 in unrealized foreign exchange gains on the translation of foreign denominated leases and \$374 in lease payments.
- The deferred tax liability decreased by \$252 primarily due to existing deferred tax assets for property and equipment that reduced tax liabilities otherwise payable.

Shareholders' Equity decreased by \$2,839. This increase in aggregate is summarized below:

- Share capital increased \$72 due to an exercise of restricted share units.
- Contributed surplus increased by \$742 due to \$282 amortization of stock-based compensation on options and restricted share units, \$532 reclassification of expired warrants on settlement of 2020 convertible debentures, partially offset by \$72 reclassification to Share Capital for the exercise of restricted share units.
- Accumulated other comprehensive loss decreased by \$489 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 \$2,632 due to the loss to common shareholders for the six months ended June 30, 2023.

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

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F. Consolidated Statements of Cash Flows

Cash Flow – Second Quarter

The cash position of the Company as at June 30, 2023, was \$3,519 compared to a cash position of \$13,826 in the comparative period.

The change in cash in the second quarter of 2023 was a decrease of \$6,079 as compared to a decrease of \$4,463 in the same period of 2022. This change is outlined in the table:

	Three Months Ended June 30,		
	2023	2022	Change
Cash used in operating activities			
Cash flow from operating activities	\$ (457)	\$ (1,316)	\$ 859
Net change in non-cash working capital items	(1,173)	(689)	(484)
	(1,630)	(2,005)	375
Cash used in investing activities	(419)	(1,897)	1,478
Cash used in financing activities	(4,027)	(487)	(3,540)
Foreign exchange effect on cash	(3)	(74)	71
	(6,079)	(4,463)	(1,616)
Cash at beginning of period	9,598	18,289	(8,691)
Cash at end of period	\$ 3,519	\$ 13,826	\$ (10,307)

Cash used in operating activities decreased by \$375 due to the following:

- Cash flow before non-cash working capital adjustments increased by \$859 primarily due to: higher revenues and higher gross margins partially offset by higher SG&A costs due to inflationary pressures.
- Net change in non-cash working capital items decreased by \$484, 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 decreased by \$1,478 due to the following:

- In the prior period, the company invested \$1,444 in Glavel Inc equity and convertible notes.
- Property and equipment additions increased by \$20 compared to the prior period.
- Proceeds from property and equipment dispositions increased by \$54 compared to the prior period.

Cash used in financing activities increased by \$3,540 due to the following:

- The company repaid the April 2020 convertible debentures in the amount of \$3,589.
- Repayment of finance lease obligations increased \$44 due to building and vehicle additions.
- Interest paid increased by \$93 due to rising interest rates and foreign denominated BDC loan payments.

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Cash Flow – Year to Date

The cash position of the Company as at June 30, 2023, was \$3,519 compared to a cash position of \$13,826 in the comparative period.

The change in cash in the first half of 2023 was a decrease of \$7,163 as compared to a decrease of \$6,406 in the same period of 2022. This change is outlined in the table below:

	Six Months Ended June 30,		
	2023	2022	Change
Cash used in operating activities			
Cash flow from operating activities	\$ (1,164)	\$ (2,794)	\$ 1,630
Net change in non-cash working capital items	(707)	89	(796)
	(1,871)	(2,705)	834
Cash used in investing activities			
Cash used in investing activities	(980)	(3,090)	2,110
Cash used in financing activities	(4,299)	(625)	(3,674)
Foreign exchange effect on cash	(13)	14	(27)
Increase (decrease) in cash	(7,163)	(6,406)	(757)
Cash at beginning of period	10,682	20,232	(9,550)
Cash at end of period	\$ 3,519	\$ 13,826	\$ (10,307)

Cash used in operating activities decreased by \$834 due to the following:

- Cash flow from operating activities before non-cash working capital adjustments improved by \$1,630 mainly due higher revenues and gross margins when compared to the prior quarter period.
- Net change in non-cash working capital items increased by \$796, primarily due to the level of trade receivables and trade payables generated in the respective periods and the timing of their collection and disbursement.

Cash used in investing activities decreased by \$2,110 due to the following:

- Long-term investment decreased by \$2,156 as the company made investment in Glavel Inc. equity and convertible debentures in the prior period.
- Property and equipment additions increased by \$70 compared to prior period.
- Proceeds from property and equipment dispositions increased by \$24 compared to the prior period.

Cash used in financing activities increased by \$3,674.

- The company repaid the April 2020 convertible debentures in the amount of \$3,589.
- Repayment of the principal portion of finance lease obligations increased by \$71.
- Interest payments decreased by \$14.

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.

On June 30, 2023, the Company had cash balance of \$3,519 versus \$10,682 at December 31, 2022. The Company's Adjusted Net Working Capital was \$4,401 at June 30, 2023 compared to \$3,740 at December 31, 2022.

The convertible debentures that were issued in April 2020 were repaid on their maturity date of April 2023. This decreased cash balances but also reduced debt and future interest costs.

In February 2022 and amended May 2023, CEMATRIX entered into a financing arrangement with the Canadian Imperial Bank of Commerce (the "Bank" or "CIBC") which provides a \$3,000 (originally \$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 at 6.95% as of June 30, 2023, and is secured by a general security agreement providing a first secured interest on the receivables and inventory of the Company. 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 amended Credit Facility, the Bank will advance up to \$3,000 (originally \$5,000) based on 75% of trade receivables less than ninety days outstanding at the end of each month and 50% of inventories. The calculated availability of the Credit Facility on June 30, 2023, was \$3,000 of which \$nil was outstanding (\$nil – December 31, 2022). The actual availability of the credit facility is reduced by the value of letters of credit that are currently issued and outstanding on the facility. As of June 30, 2023, there were \$865 in letters of credit outstanding (\$1,387 – December 31, 2022).

The CIBC credit facility has three financial covenants that must be maintained on a consolidated basis (refer to Appendix C for detailed calculations). The three financial covenants are the current ratio, debt to EBITDA ratio, and debt service coverage ratio. The current ratio and debt to EBITDA ratios are tested quarterly and the debt service coverage ratio is tested annually. As at June 30, 2023, CEMATRIX was in compliance with the current ratio financial covenant, but not in compliance with the debt to EBITDA ratio.

- Current ratio not less than 1.25, tested quarterly. This is the ratio of current assets to current liabilities. As at June 30, 2023, 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 June 30, 2023 the Company is not compliant with this covenant. In May 2023, CIBC and the Company amended the credit facility to waive the quarterly Debt to EBITDA covenant for Q1 2023 to Q3 2023.
- 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).

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, 2022. This covenant will be tested again at December 31, 2023.

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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 20 - Capital Management to the Consolidated Financial Statements, was \$29,016 on June 30, 2023, as compared to \$35,317 on December 31, 2022 (see Section E. Consolidated Statements of Financial Position for details).

H. Off Balance Sheet Arrangements

There were no off balance sheet arrangements on June 30, 2023.

I. Transactions with Related Parties

During the three and six months ended June 30, 2023, and 2022, the Company did not have any material transactions with related parties.

J. 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.

K. 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 2023 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 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 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.

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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 \$2,947 on June 30, 2023, 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 June 30, 2023, and December 31, 2022, based on contractual undiscounted payments.

	Less than 1 year	1 to 2 years	2 to 6 years	Total
As at June 30, 2023				
Trade and other payables	\$ 1,783	\$ -	\$ -	\$ 1,783
Long-term debt	916	865	1,066	2,847
Lease obligations	605	495	166	1,266
	\$ 3,304	\$ 1,360	\$ 1,232	\$ 5,896
As at December 31, 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

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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 June 30, 2023, and December 31, 2022, the following balances were denominated in USD:

<i>(in 000's US Dollars)</i>	2023	2022
Cash and cash equivalents	\$ 598	\$ 361
Trade and other receivables	2,570	3,879
Prepaid expenses and deposits	47	122
Long-term investments	1,785	1,759
Trade and other payables	(644)	(2,849)
Long term debt	(1,400)	(1,400)
Lease obligations	\$ (415)	\$ (574)

The Company's primary foreign exchange sensitivity is in relation to movements of the USD against the Canadian dollar. Based on USD balances as at June 30, 2023, a 1% increase/decrease of the USD against the Canadian dollar would result in an increase/decrease in net loss of approximately CAD \$34 excluding the effect of income taxes.

M. Disclosure of Outstanding Share Data

As at March 31, 2023, and May 10, 2023, the following is a description of the outstanding equity securities and convertible securities previously issued by the Company:

	Authorized	Outstanding as at June 30, 2023	Outstanding as at August 9, 2023
Voting or equity securities issued and outstanding	Unlimited Common Shares	134,381,452 Common Shares	134,381,452 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 5,215,000 Common Shares at an exercise price at between \$0.185 - \$0.59	Stock options to acquire 5,215,000 Common Shares at an exercise price at between \$0.185 - \$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 1,061,465 Common Shares	RSU's to acquire 1,061,465 Common Shares

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N. Outlook

Management's outlook continues to remain very positive. In the second quarter we continued to see revenue growth coupled with improving gross margins has the Company building off our good start to the year. We expect this trend to continue into Q3 and Q4 of this year, with revenues significantly above last year coupled with improved margins ultimately leading to positive EBITDA and positive cashflow from operations.

The inflationary pressures and supply chain challenges that significantly impacted the company in 2022 have eased largely due to the concerted efforts of the central banks and governments to bring inflation down. We do continue to experience inflationary pressure on salaries and wages as they need to be increased to offset inflation in order to retain and attract employees.

The Company continues to be focused on the execution of its strategic plan. 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 identification of acquisitions of other cellular concrete applicators, specialty suppliers and/or other complimentary companies provided that they add value to CEMATRIX and its shareholders. In the short term the Company has put a hold on further acquisitions and/or investments until our stock price rebounds from what is expected to be a strong 2023.

The acquisitions we completed in the past have established CEMATRIX as the clear leader in its industry, which from should allow the company to increase its market share, cash flow and profitability regardless of the changes in the macro-economic environment.

Cement supply chain challenges impacted the Company in most key North American markets in 2022. Consistent with the communication from our key suppliers these challenges have mostly dissipated in 2023. This improvement is the result of increased production capacity across North America, increased supply from overseas markets and the drop in demand for residential construction, which is a significant driver of cement demand. The demand is expected to ease significantly in most markets due to a general economic slowdown caused by increasing interest rates and increasing inflation.

A key strategic goal of the Company has been to simplify and de-lever the balance sheet, which was achieved as of April 2023. In March 2023, all of the warrants (regular warrants and broker warrants) associated with the March 2021 financing expired. In April 2023, we repaid \$3.6 million in the remaining convertible debentures that matured. At the same time, all of the outstanding warrants (regular warrants and broker warrants) associated with the convertible debt financing expired. The impact of these two events is another step forward that significantly simplifies and de-levers our capital structure. As of April 2023, the only remaining dilutive instruments are stock options and RSUs outstanding as part of the Omnibus Equity Incentive Plan. The remaining long-term debt is with the BDC and is under \$3.0 million with a built-in repayment plan to be completely repaid at rate of \$1.0 million per year by the end of 2025. The overall debt reduction efforts undertaken in the last three years is estimated to save the Company over a \$1.2 million per year annually in cash interest costs.

In summary, the company's financial sustainability remains strong. The Company continues to demonstrate strong organic growth. We are on track for a record year in terms of revenue and return to profitability. We remain committed to our strategy and expect to see more of our efforts come to fruition in the second half of 2023 and beyond.

Appendix A – Forward Looking Statements

The forward-looking statements in the MD&A for the three and six months ended June 30, 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 2023; sales forecasts include work which is under contract or Verbally Awarded for 2023, 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 2023 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.

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

Adjusted net working capital at June 30, 2023, and December 31, 2022, were as follows:

	2023	2022
Current Assets	\$ 9,703	\$ 19,561
Current Liabilities	(3,304)	(10,165)
Net working Capital	6,399	9,396
Adjustments		
Cash and cash equivalents	(3,519)	(10,682)
Current portion of long-term debt	916	937
Current portion of lease obligations	605	590
Current portion of convertible debt – host debt	-	3,499
Adjusted Net Working Capital	\$ 4,401	\$ 3,740

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 six months ended June 30, 2023, and 2022 were as follows:

	Three months ended June 30		Six months ended June 30	
	2023	2022	2023	2022
Net income (loss)	\$ (963)	\$ (1,619)	\$ (2,632)	\$ (3,831)
Finance costs	119	161	288	322
Depreciation and amortization	519	452	1,075	893
Provision of deferred / current taxes	(216)	(471)	(229)	(498)
EBITDA	(541)	(1,477)	(1,498)	(3,114)
Unrealized foreign exchange (gain)	(35)	(104)	(29)	(121)
Accretion costs	28	94	138	184
Revaluation of derivatives	-	7	21	7
Stock based compensation	150	165	282	294
Adjusted EBITDA	\$ (398)	\$ (1,315)	\$ (1,086)	\$ (2,750)

Appendix C – Covenant Calculations

As at June 30, 2023

CIBC Covenants

CURRENT RATIO

Formula: Current Assets / Adjusted Current Liabilities

Current Assets	\$	9,703
Current liabilities		3,304

Current Ratio		2.94
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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	\$	916
Long term debt		1,931

Adjusted long term debt		2,847
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Adjusted EBITDA (Rolling 12 months)		(1,009)
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Debt to EBITDA Ratio		(2.82)
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Covenant tested quarterly, not to exceed 3x		3.00
		Covenant Not Met