CEMATRIX CORPORATION

Management's Discussion and Analysis

For the Year Ended December 31, 2023
(in 000's Canadian dollars)

Form 51-102F1 Management's Discussion & Analysis

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The following is the Management's Discussion and Analysis ("MD&A") of CEMATRIX Corporation ("CEMATRIX" or the "Company") for the year ended December 31, 2023. This MD&A should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2023, 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, 2022, 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.sedarplus.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, 2023. The Board of Directors of the Company reviewed and approved the Consolidated Financial Statements and MD&A on April 10, 2024.

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 the Key Market Drivers section and in the Key Risks and Uncertainties section 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 ("IASB").

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.

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 twelve months ended December 31, 2023, the Company's financial condition as at December 31, 2023, and its future prospects.

Highlights

A record fourth quarter caps off best year in the history of the Company

In the fourth quarter of 2023, the Company's revenue was $19.6 million versus $8.3 million in the same quarter last year, which represents a 136% increase. Full year revenue for 2023 was $53.3 million versus $29.0 million for 2022, which represents an 84% increase year over year. Current year revenue of $53.3 million is higher than any other full year in the history of the Company and was achieved through organic growth. All of the Company's financial KPI's have improved in 2023 including revenue, gross margins, gross margins percent, operating income, adjusted EBITDA ("aEBITDA"), and cashflow.

Revenue growth

The fourth quarter is generally the second strongest financial quarter for the Company as owners and general contractors push to complete work before the colder temperatures arrive (and resulting extra costs) in many of the key markets that the Company operates. It is normally a shorter quarter though, as most construction work typically ends late by mid December due to the start of the holiday season. The Company once again saw significant revenue growth in the fourth quarter of 2023 compared to 2022 and when combined with the previous quarters resulted in continued record revenues for the year. This increase in revenue is due to the continuing growing market acceptance of cellular concrete the United States and Canada and our ability to continue to realize on this opportunity through our continued investment and growth of our sales teams.

Improving gross margins

In addition to record revenue, the Company has continued to experience improved margins. 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 United States of America ("US") have been successful at slowing the pace of inflation. In particular, the cement and ready-mix supply commodity availability and prices have stabilized which has also helped margins.

Much of the Company's costs are fixed. The Company's only true significant variable costs are cement / ready mix, foaming agent, mobilization / demobilization costs, and other project specific costs. As a result, the Company requires a certain amount of revenue and project margins to cover these fixed costs to breakeven. Once that breakeven amount of revenue is achieved, the Company begins to be profitable as every additional gross margin dollar turns into EBITDA. As a result of the above factors, the Company has experienced improved margins in the quarter and the year.

Seasonal business

As a specialty construction contractor, our business is subject to the seasonality of the overall construction industry in the markets that we operate in. In particular, winter and cold weather has a significant impact on the activities of our customers and, as a direct result, our revenue. Due to the challenges associated with cold weather, there is in general less construction activities that occur during the winter in Canada and the northern United States. The Company strategically uses these slower periods or downtimes due seasonality to perform repairs and maintenance on our equipment to help ensure that we are ready to go when our business hits its peak periods.

The first quarter tends to be our slowest quarter, followed by the second quarter, with the third quarter being our strongest and the fourth quarter generally being our second best quarter. Over the last four years, we have averaged 35% of our revenue in the first half of the year, 40% of our revenue in the third quarter, and 25% of our revenue in the fourth quarter. The percentages can and do vary year to year depending on the location and mix of project types. Some of our projects or applications, such as tunnel grouting work, work on the west coast, or work in the southern US has less exposure to winter seasonality. We continue to strive to win more work and grow our business in these segments to reduce the impact of seasonality on our business.

Cement & ready-mix supply challenges significantly improved

Cement & ready-mix 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 had indicated that they do expect the availability of cement and ready-mix to improve significantly in 2023 and it did. We witnessed this firsthand as cement and ready-mix pricing has stabilized and availability has improved across all of our markets. Our cement and ready-mix suppliers have shared with the Company that this improvement is due primarily 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 stabilizing

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 inflationary pressure on lagging inflationary items such as salaries and wages in 2024 as they now have to be adjusted to account for the inflation that was experienced by our employees in 2022 and 2023.

Selling general & administrative cost increases

The large increase in selling general & administrative ("SG&A") costs in the quarter was primarily due to higher insurance costs in one of our businesses where the premium is directly tied to revenues. The Company has renegotiated this insurance policy and expects to see significant savings in 2024. Other factors that increased SG&A costs in the quarter include an accrual for short-term incentives (bonuses) as a result of the very strong year.

Full year 2024 forecast

2023 was a record year in every respect and a significant improvement versus previous years. Some of this growth is directly due to a catch up in the market for many of the delays created by the COVID environment and the cement supply chain issues experienced in 2022. We do expect the market to continue its strong organic growth for the foreseeable future, but certainly not to the extent that we experienced in 2023. As such, 2024 is forecasted to be a strong year and is well supported by the backlog that the Company has in place and continues to add to.

Furthermore, 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.

Continue to win new contracts

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.

During Q4 2023, the Company announced major contracts wins amounting to $18.6 million to bring the total value of announced contracts in 2023 to $63.4 million. The Company continues to see increased activity in its bid pipeline which bodes well into 2024 and beyond.

Financial review – fourth quarter

Revenues were a record $19.6 million for the fourth quarter of 2023, an increase of $11.3 million or 136%, compared to $8.3 million in the fourth quarter of 2022. Fourth quarter revenue was higher than last year due to work completed related to several large tunnel grouting projects.

Gross margin was $5.4 million in the fourth quarter of 2023, compared to $0.4 million in the fourth quarter of 2022, an increase of $4.9 million. Gross margin (as a percentage of revenue) increased to 27% in the fourth quarter of 2023 compared to 5% 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.

Adjusted EBITDA was $2.9 million in the fourth quarter of 2023 compared to negative $0.8 million in the same period of 2022. Cash flow generated from operating activities (before changes in working capital) was $2.9 million in the fourth quarter of 2023, compared to negative $0.7 million in the same period of 2022.

Financial review – year

Revenue was a record $53.3 million for the year ended December 31, 2023, an increase of $24.3 million or 84% compared to the comparable period of 2022. The increase in revenue was due to more projects being completed this year across all of our businesses and in all of our markets.

Gross margin and gross margin percentage were $11.9 million and 22% respectively for 2023, compared to $2.5 million or 9% in 2022, an increase of $9.4 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.

2023 Adjusted EBITDA was $4.9 million, compared with adjusted EBITDA of negative $2.7 million in the same period in 2022, for an improvement of $7.6 million, mainly due to higher revenues and higher gross margins. Cash flow generated from operating activities (before changes in working capital) was $4.9 million in 2023, compared to cash used in operating activities of $2.6 million in the same period in 2022.

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. 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, frost or permafrost conditions; mechanical stabilized earth ("MSE") panels, retaining wall and overpass or bridge abutment 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 eleven 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; commercially available foaming agents and the Company's own foaming agent; 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.

In 2022, The Company made a strategic minority investment in Glavel Inc ("Glavel"). Glavel is a foam glass aggregate company based in Vermont, USA. Foamed glass is a lightweight bulk aggregate made from recycled glass. It's used across the construction industry as drainage and insulation in subslab insulation systems, and as lightweight fill for soft soil applications and green roof fill installations. At under 10 pounds per cubic foot, foam glass gravel is incredibly lightweight. The closed cell structure and high compressive strength make it highly versatile for design and construction. The investment provides CEMATRIX with an entry point into environmentally friendly construction materials, which is a market segment that the Company expects to continue to grow in size in the future.

The CEMATRIX head office is located in Calgary, Alberta, Canada.

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 US; advanced its strategic alliances with Lafarge, Heidelberg 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.

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 US infrastructure applications through its recently acquired US 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 US, 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 US, cellular concrete is already an approved product for various infrastructure applications in most regions of the US and in fact the market development in the US 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 US 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 US 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 US 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.

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 the section 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 and SG&A costs. 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

Our industry, our product, our equipment, and our workforce are very specialized which can make finding and retaining staff more challenging. Given the uniqueness of CEMATRIX product and the proprietary nature of some of our equipment, finding and retaining our skilled work force is a key risk that we closely monitor and manage. Our past acquisitions and recent growth have enabled CEMATRIX to allocate underutilized operating and technical staff resources between its operating subsidiaries, subject to the limitation created by cross border issues. The Corporation is seeing significant wage inflation for all roles consistent with the increasing inflation.

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 this risk by developing or purchasing more equipment that will reduce the need to rely on higher priced Ready-Mix products for its raw material supply for its projects.

Access to capital

CEMATRIX is currently well-funded with a strong balance sheet and a positive cash position. The Company continues to search for opportunities to invest this cash in accretive acquisitions that fit our strategy and in new equipment / regional expansion. In addition, the Company has a $3 million credit facility with Canadian Imperial Bank of Commerce ("CIBC") to provide further financial flexibility to manage working capital changes. 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 over the last two years. Management views the micro-cap market as improving into 2024 but 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)

Operations and overall performance

Results of operations – fourth quarter

Comparison of the three months ended December 31, 2023, with the same period in 2022:

		2023		2022		Change
Revenue	$	**19,553**	$	8,303	$	11,250
Gross margin	$	**5,350**	$	417	$	4,933
Operating expenses		**(2,966)**		(1,677)		(1,289)
Operating income (loss)		**2,384**		(1,260)		3,644
Stock based compensation		**(45)**		(147)		102
Finance costs		**(100)**		(215)		115
Other income (expense)		**(190)**		(202)		12
Share of losses of Glavel Inc.		**(56)**		(34)		(22)
Accretion costs		**-**		(106)		106
Fair value of derivatives		**-**		5		(5)
Income (loss) before income taxes		**1,993**		(1,959)		3,952
Provision of deferred taxes		**96**		735		(639)
Provision of current taxes		**(50)**		(23)		(27)
Income (loss) attributable to the common shareholder		**2,039**		(1,247)		3,286
Unrealized foreign exchange gain (loss) on translation of foreign subsidiaries		**(587)**		(45)		(542)
Comprehensive income (loss)	$	**1,452**	$	(1,292)	$	2,744
Fully diluted gain (loss) per common share	$	**0.015**	$	(0.009)	$	0.024

Revenues were $19.6 million for the fourth quarter of 2023, an increase of $11.3 million or 136%, compared to $8.3 million in the fourth quarter of 2022. The increase in revenue was due to the increased size, value and number of projects completed in both Canada and the US during the quarter.

Gross margin was $5.4 million in the fourth quarter of 2023, compared to $0.4 million in the fourth quarter of 2022, an increase of $4.9 million. Gross margin percentage increased to 27% in the fourth quarter of 2023 compared to 5% 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 $3.0 million in the fourth quarter of 2023 compared to $1.7 million in the same period in 2022, an increase of 77%. The large increase in SG&A costs in the quarter was primarily due higher insurance costs in one of our businesses where the premium is directly tied to revenues. The Company has renegotiated this insurance policy and expects to see significant savings in 2024. Other factors that increased SG&A costs in the quarter include an accrual for short-term incentives (bonuses) as a result of the strong year. Finally, SG&A costs are also up due to annual increases in salaries & wages (raises), new hires, sales and marketing costs; partially offset by reductions in legal and consulting expenses.

Stock-based compensation expense of $45 for the fourth quarter of 2023 compared to $147 during the fourth quarter of 2022. The reduction of $102 relates to the differences in amounts granted and vesting dates between the periods and the corresponding impacts on the recognition of stock-based compensation.

Finance costs were $100 in the fourth quarter of 2023 compared to $215 in the same period in 2022, a decrease of $115 or 53%. 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 Business Development Bank of Canada ("BDC").

Other expense was $190 in the fourth quarter of 2023 compared to $202 in the fourth quarter of 2022. In the fourth quarter of 2023, other income mainly consisted of a foreign exchange loss of $87 and PIGCO Earnout expense of $175, partially offset by interest income of $37 and a gain on sale of equipment of $34. For the same period in 2022, other expenses were mainly related to foreign exchange losses of $172 and loss on sale of equipment of $122, partially offset by interest income of $107.

The company's share of losses in Glavel Inc. was $56 (2022 - $34). The company accounts for its equity in investment in Glavel using the equity method.

Accretion costs were $nil in the fourth quarter of 2023 compared to $106 for the same period in 2022. Accretion expense is entirely related to the host debt contract of the convertible debentures 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 US dollar ("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 $587, in the fourth quarter of 2023, compared to an unrealized foreign exchange loss of $45 in same period in 2022.

(in 000's Canadian Dollars)

Results of operations – year

Comparison of the year ended December 31, 2023, and 2022:

		2023		2022		Change
Revenue	$	**53,295**	$	29,003	$	24,292
Gross margin	$	**11,879**	$	2,518	$	9,361
Operating expenses		**(9,139)**		(7,257)		(1,882)
Operating income (loss)		**2,740**		(4,739)		7,479
Stock based compensation		**(329)**		(610)		281
Finance costs		**(474)**		(755)		281
Other income (expense)		**(144)**		94		(238)
Share of losses of Glavel Inc.		**(56)**		(34)		(22)
Accretion costs		**(139)**		(391)		252
Fair value of derivatives		**(21)**		(6)		(15)
Loss before income taxes		**1,577**		(6,441)		8,018
Provision of deferred taxes		**(277)**		903		(1,180)
Provision of current taxes		**(65)**		(23)		(42)
Loss attributable to the common shareholder		**1,235**		(5,561)		6,796
Unrealized foreign exchange gain (loss) on translation of foreign subsidiaries		**(587)**		1,112		(1,699)
Comprehensive income (loss)	$	**648**	$	(4,449)	$	5,097
Fully diluted income (loss) per common share	$	**0.009**	$	(0.042)	$	0.051

Revenue for 2023 was $53.3 million compared to $29.0 million in the prior year, an increase of 84% or $24.3 million. The increase in revenue was due to an increased size, value and number of projects completed, including three large tunnel grouting projects, as the Company's investment in sales resources and sales strategies continues to be successful.

Gross margin for 2023 was $11.9 million, an increase of $9.4 million, compared to a gross margin of $2.5 million in the prior year period. As a percentage of revenues, the gross margin percentage increase to 22% compared to 9% 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 expenses ("SG&A") for 2023 were $9.1 million compared to $7.3 million in the prior year, an increase of $1.9 million or 26%. The large increase in SG&A costs in the year was primarily due to higher insurance costs in one of our businesses where the premium is directly tied to revenues. The Company has renegotiated this insurance policy and expects to see significant savings in 2024. Other factors that increased SG&A costs in the quarter include an accrual for short-term incentives (bonuses) as a result of the strong year. Finally, SG&A costs are also up due to annual increases in salaries & wages (raises), new hires, sales and marketing costs; partially offset by reductions in legal and consulting expenses.

Stock based compensation expense for 2023 was $329, compared to $610 in the prior year period. During 2023, the company evaluated its forfeiture rate following the departure of several staff members. The change in forfeiture rate resulted in a recovery of $61. The additional reduction of $220 relates to the differences in amounts granted and vesting dates between the periods and the corresponding impacts on the recognition of stock-based compensation.

Finance costs for 2023 were $474, compared to $755 in the same period in 2022, a decrease of $281. 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 (expense) for 2023 was ($144), compared to income of $94 for the same period in 2022, representing a decrease of $238. Other income (expense) for 2023 primarily consisted of foreign exchange loss of $342 and PIGCO earnout expense of $175, partially offset by interest income of $293, gain on sale of equipment of $64. For the same period in 2022, other income consisted of interest income of $307, partially offset by a foreign exchange loss of $128 and a loss on sale of equipment of $79.

The company's share of losses in Glavel Inc. was $56 (2022 - $34). The company accounts for its equity in investment in Glavel using the equity method.

Accretion costs for 2023 were $139 compared to $391 in the prior year, a decrease of $252 or 64%. Accretion expense is entirely related to the host debt contract of the 2020 Convertible Debentures 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 debentures 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 debentures decreased by $21 in 2023, resulting in a loss for the same amount, compared to a decrease of $6 in 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 weakened relative to the USD, the value of these assets appreciated resulting in an unrealized foreign exchange loss of $588 in 2023. The opposite effect occurred in 2022 which resulted in an unrealized foreign exchange gain of $1,112.

(in 000's Canadian Dollars)

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		Income (loss) per share Diluted
2023 Year								
March 31	**$**	**7,182**	**$**	**(1,687)**	**$**	**(0.012)**	**$**	**(0.012)**
June 30		**6,185**		**(1,434)**		**(0.007)**		**(0.007)**
September 30		**20,375**		**2,319**		**0.014**		**0.013**
December 31		**19,553**		**1,452**		**0.015**		**0.015**
Total for year	**$**	**53,295**	**$**	**648**	**$**	**0.009**	**$**	**0.009**
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.

Consolidated Statements of Financial Position

Comparison for the year ended December 31, 2023, and 2022:

		2023		2022		Change
Current assets	$	**17,872**	$	19,561	$	(1,689)
Non-current assets		**21,407**		21,256		151
Total assets	$	**39,279**	$	40,817	$	(1,538)
Current liabilities	$	**8,315**	$	10,165	$	(1,850)
Non-current liabilities		**2,241**		2,910		(668)
Total liabilities	$	**10,556**	$	13,075	$	(2,518)
Shareholders' equity	$	**28,723**	$	27,742	$	980
Total liabilities and shareholders' equity	$	**39,279**	$	40,817	$	(1,538)

Total current assets decreased by $1,689. This decrease in aggregate is summarized below:

- Cash decreased by $7,394 (See the discussion in Consolidated Statement of Cash Flows).
- Trade and other receivables increased by $5,528 due to record revenue generated in 2023. Accounts receivables increase during periods of higher revenue and then decline in periods of lower revenue as the amounts are collected. The Company expects to turn a significant portion of the increased accounts receivable into cash in the first quarter of 2024.
- Inventory increased by $29 as foaming agent was purchased in late December 2023 for use in the production of cellular concrete in first quarter of 2024.
- Prepaids, deposits, and short-term investments increased by $148 due to the promissory note investment in Glavel Inc. of $201, partially offset by the amortization of insurance premiums that were prepaid in 2023.

Total non-current assets increased by $151. This increase in aggregate is summarized below:

- Long-term investments decreased by $41 due to: $71 accrued interest income from the Glavel Notes, offset by $56 unrealized foreign exchange loss on the translation of the investment in Glavel Inc and $56 loss on share of profits of Glavel Inc.
- Property and equipment increased by $94 because of equipment and vehicle additions of $1,963, offset by depreciation expense of $1,565, dispositions with a net book value of $42, and by a $262 foreign exchange loss on the translation of assets held by our foreign denominated subsidiaries.
- Right of use assets under finance lease increased by $264 due to building and vehicle additions of $972, offset by depreciation expense of $651, dispositions with a net book value of $29, and $28 foreign exchange loss on the translation of assets held by our foreign denominated subsidiaries.
- Goodwill and intangibles assets decreased by $145 foreign exchange loss on the translation of assets held by our foreign denominated subsidiaries.
- Convertible debt – derivative asset decreased by $21 as the convertible debentures forced conversion feature was reduced to zero because of the repayment in April 2023.

Total current liabilities decreased by $1,850. This decrease in aggregate is summarized below:

- Trade and other payables increased by $1,357 largely as a result of the timing difference in payments largely as a result of the timing difference in payments and as a result of increased operational activity in fourth quarter.
- On April 22, 2020, the Company issued unsecured convertible debentures with a total principal amount of $5,720 at a price of $1,000 per debenture with a maturity of April 22, 2023. The 2020 Convertible Debentures were repaid on maturity, resulting in a decrease to current liabilities of $3,499.
- Current portion of long-term debt decreased by $22 because of foreign exchange rate decrease on BDC USD denominated loans.
- Current portion of finance lease obligations increased by $139 due to changes in finance leases on buildings and vehicles.
- Current portion of earn-out liability increased by $175 due to increased profits in PIGCO during the fourth and final earnout period.

Total non-current liabilities decreased by $668. This decrease in aggregate is summarized below:

- Long term debt decreased $961 because of $933 repayments and $50 unrealized foreign exchange gains on the translation of foreign denominated debt and $22 change in current portion of long-term debt.
- Finance lease obligations increased $12 due to $970 in building and vehicle additions offset by $797 in lease payments, a foreign exchange gain of $22, and $139 increase in current portion of finance lease obligations.
- Deferred tax liability increased by $281 primarily due differences in accounting net income versus taxable net income related to different depreciation rates used for accounting versus tax, partially offset by $19 unrealized foreign exchange losses on the revaluation of the USD denominated balances.

Shareholders' Equity increased by $980. This increase in aggregate is summarized below:

- Share capital increased $237 due to an exercise of stock options and restricted share units.
- Contributed surplus increased by $627 due to $329 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 $234 reclassification to Share Capital for the exercise of restricted share units.
- Accumulated other comprehensive loss decreased by $587 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 decreased by $1,235 due to the net income attributable to common shareholders for 2023.

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

(in 000's Canadian Dollars)

Consolidated Statements of Cash Flows

Cash flow – fourth quarter

The cash position of the Company as at December 31, 2023, was $3,288 compared to a cash position of $10,682 in the comparative period.

The change in cash in the fourth quarter of 2023 was an increase of $1,378 as compared to a decrease of $1,564 in the same period of 2022. This change is outlined in the table:

	2023	2022	Change
Cash generated (used) in operating activities			
Cash flow from operating activities	**$ 2,925**	$ (709)	$ 3,634
Net change in non-cash working capital items	**(162)**	754	(916)
	2,763	45	2,718
Cash used in investing activities	**(561)**	(635)	74
Cash used in financing activities	**(782)**	(921)	139
Foreign exchange effect on cash	**(42)**	(53)	11
Increase (decrease) in cash	**1,378**	(1,564)	2,942
Cash at beginning of period	**1,910**	12,246	(10,336)
Cash at end of period	**$ 3,288**	$ 10,682	$ (7,394)

Cash generated (used) in operating activities increased by $2,718 due to the following:

- Cash flow before non-cash working capital adjustments increased by $3,634 primarily due to: higher revenues and higher gross margins partially offset by higher SG&A costs.
- Net change in non-cash working capital items decreased by $916, primarily due to the level of trade receivables versus trade payables generated in the respective periods and the timing of their collection and payment.

Cash used in investing activities decreased by $74 due to the following:

- Property and equipment additions decreased by $197 compared to the prior period.
- Proceeds from property and equipment dispositions decreased by $4 compared to the prior period.
- Add on investment in Glavel related to promissory notes of $201, partially offset by the 2022 purchase of Glavel common shares.

Cash used in financing activities decreased by $139 due to the following:

- Repayment of finance lease obligations increased $51 due to building and vehicle additions.
- Interest paid decreased by $187 due to repayment of the convertible debentures, partially offset by rising interest rates and foreign denominated BDC loan payments.
- Proceeds on the exercise of options increased $3.

(in 000's Canadian Dollars)

Cash flow – year

The cash position of the Company as at December 31, 2023, was $3,288 compared to a cash position of $10,682 in the comparative period.

The change in cash for 2023 was a decrease of $7,394 as compared to a decrease of $9,549 in the same period of 2022. This change is outlined in the table below:

		2023		2022		Change
Cash generated (used) in operating activities						
Cash flow from operating activities	**$**	**4,891**	$	(2,617)	$	7,508
Net change in non-cash working capital items		**(4,388)**		(587)		(3,801)
		503		(3,204)		3,707
Cash used in investing activities		**(2,033)**		(4,037)		2,004
Cash used in financing activities		**(5,816)**		(2,312)		(3,504)
Foreign exchange effect on cash		**(48)**		4		(52)
Increase (decrease) in cash		**(7,394)**		(9,549)		2,155
Cash at beginning of period		**10,682**		20,231		(9,549)
Cash at end of period	**$**	**3,288**	$	10,682	$	(7,394)

Cash generated (used) in operating activities increased by $3,707 due to the following:

- Cash flow from operating activities before non-cash working capital adjustments improved by $7,508 mainly due higher revenues and gross margins when compared to the prior period.
- Net change in non-cash working capital items increased by $3,801, 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 $2,004 due to the following:

- Long-term investment decreased by $2,037 as the company made investment in Glavel Inc. equity and convertible debentures in the prior year, partially offset by a new $204 investment in Glavel Inc. promissory notes in 2023.
- Property and equipment additions increased by $81 compared to prior year. Proceeds from property and equipment dispositions increased by $48 compared to the prior period.

Cash used in financing activities increased by $3,504 due to the following:

- 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 $144 due to building and vehicle additions and foreign denominated lease payments.
- Long term debt repayment increased by $7 due to foreign denominated loan payments.
- Interest payments decreased by $233.
- Proceeds on the exercise of options increased $3.

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, 2023, the Company had cash balance of $3,288 versus $10,682 as at December 31, 2022.

The Company's adjusted net working capital was $7,913 on December 31, 2023, compared to $3,740 on December 31, 2022. The Company expects to turn a significant portion of its accounts receivables into cash in the first quarter of 2024 generating a positive cashflow from operations due to working capital changes.

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 CIBC (the "Bank") 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 7.20% as of December 31, 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 December 31, 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 December 31, 2023, there were $865 in letters of credit outstanding ($1,387 – December 31, 2022).

The 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 December 31, 2023, CEMATRIX was in compliance with all financial covenants.

- Current ratio not less than 1.25, tested quarterly. This is the ratio of current assets to current liabilities.
- 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.
- 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 BDC USD financing loans have a consolidated fixed charge coverage ratio financial covenant which is tested annually. As at December 31, 2023, the Company was compliant with this covenant.

The Company considers its liquidity position to be strong, due to the current cash in the bank, the expected continued generation of cash flow from profits, credit available through operating lines, our increased ability to borrow and go to markets to raise capital. The Company also expects to continue to be in compliance with our debt covenants for both the CIBC and BDC going forward.

Capital resources

The Company is currently well capitalized with a strong balance sheet. In addition, the Company was cashflow positive from operations in 2023 and expects to be again in 2024. As a result, the Company believes that it has sufficient capital resources currently. In the future, if the Company needs access to additional capital resources to fund a strategic priority such as an acquisition, additional equipment, or other initiative, 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 28 - Capital Management to the Annual Audited Consolidated Financial Statements, was $31,967 on December 31, 2023, as compared to $35,320 on December 31, 2022 (see section Consolidated Statements of Financial Position for details).

Off Balance Sheet arrangements

There were no off balance sheet arrangements on December 31, 2023.

Transactions with related parties

During the year ended December 31, 2023, the Company incurred legal fees from a firm which employs one of the directors of the Company in the amount of $18 (2022 - $15) of which $nil (2022 - $1) is in trade and other payables as at December 31, 2023.

Two of the buildings that the Company operates out of are owned by entities that are owned or controlled by certain officers of the Company. During the year ended December 31, 2023, the Company incurred costs of $382 (2022 - $337) related to these rental leases. Lease obligations for the two buildings as at December 31, 2023 were in the amount of $521 (2022 - $406).

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 Annual Audited Consolidated Financial Statements for the year ended December 31, 2023. There have been no changes since that date.

Changes in accounting policies including initial adoption

New accounting policies

There are no new standards issued but not yet effective as of January 1, 2024, 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.

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.

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 financing loans, which totaled $1,929 on December 31, 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 $19 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, 2023, and 2022, based on contractual undiscounted payments.

	Less than 1 year	1 to 2 years	2 to 6 years	Total
As at December 31, 2023				
Trade and other payables	**$ 6,496**	**$ -**	**$ -**	**$ 6,496**
Long-term debt	**915**	**915**	**99**	**1,929**
Lease obligations	**816**	**569**	**69**	**1,454**
Earnout liability	**175**	**-**	**-**	**175**
	$ 8,402	**$ 1,484**	**$ 168**	**$ 10,054**
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

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, 2023, and 2022, the following balances were denominated in USD:

(in 000's US Dollars)	**2023**	2022
Cash and cash equivalents	**$ 1,347**	$ 361
Trade and other receivables	**6,889**	3,879
Prepaid expenses and deposits	**96**	122
Long-term investments	**1,921**	1,759
Trade and other payables	**(3,190)**	(2,849)
Long term debt	**(933)**	(1,400)
Lease obligations	**(574)**	(574)
Earnout Liability	**(132)**	-

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, 2023, a 1% increase/decrease of the USD against the Canadian dollar would result in an increase/decrease in net loss of approximately CAD $72 excluding the effect of income taxes.

(in 000's Canadian Dollars)

Disclosure of outstanding share data

As at December 31, 2023, and April 10, 2024, the following is a description of the outstanding equity securities and convertible securities previously issued by the Company:

	Authorized	**Outstanding as at December 31, 2023**	**Outstanding as at April 10, 2024**
Voting or equity securities issued and outstanding	Unlimited Common Shares	135,279,048 Common Shares	135,279,048 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 4,716,667 Common Shares at an exercise price at between \$0.185 - \$0.59	Stock options to acquire 5,916,667 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 150,887 Common Shares	RSU's to acquire 1,222,738 Common Shares

Outlook

Management's outlook continues to remain very positive going into 2024 and beyond.

In the 2023 we saw revenue growth coupled with improving gross margins that enable the Company to deliver a record year. We do expect the market to continue its strong organic growth for the foreseeable future, but certainly not to the 84% sales growth level that we experienced in 2023. As such 2024 will continue to be a strong year and is well supported by the backlog that the Company has in place and continues to add to. The Company expects revenues to 2024 to grow and continue the trend of generating income, positive adjusted EBITDA and positive cashflow from operations.

Our investments in sales and sales support resources continues to be needed and continues to be successful as we strive to meet to continues growth in demand for our products and as we continue to expand into new regions. Our sales teams continue to excel, finding and winning more projects. Market awareness and acceptance for cellular concrete in our targeted market applications continues to grow.

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 will continue to experience inflationary pressure on salaries and wages as they need to be increased to offset inflation in prior periods in order to retain and attract employees.

The acquisitions we completed in the past have established CEMATRIX as the clear leader in its industry. For 2024, the Company will continue to be focused on the execution of its strategic plan. That plan is to focus on execution of our backlog and new sales as they are generated and this includes continued regional expansion, particularly in the US where the cellular concrete market continues to experience strong growth. The Company will also continue to identify and evaluate potential acquisition targets including 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 based on our 2023 results and from what is expected to be another successful year in 2024.

The remaining long-term debt with the BDC is approximately $1.9 million at the end of 2023, 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 are estimated to save the Company over $1.2 million per year annually in cash interest costs.

Over the last three years, the Company has made significant improvements to its balance sheet and capital structure. This was achieved during a period of time that was a very difficult market for microcap stocks. The Company undertook these steps to prepare for continued growth and expansion in the future, as we anticipate that the microcap market will improve over time and that our stock price will continue to improve as we continue to execute on our strategy and produce strong financial results.

In summary, the company's financial sustainability remains strong. The Company has a strong balance sheet. The Company continues to demonstrate strong organic growth. We continue to invest in sales and sales support resources to grow our business. We just delivered the best year in the history of the Company. We expect to do it again in 2024. We remain committed to our strategy and expect to see more of our efforts come to fruition in the remainder into 2024, 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 2024; sales forecasts include work which is under contract or Verbally Awarded for 2024, 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 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 become 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 US.

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)

Adjusted net working capital on December 31, 2023, and 2022, were as follows:

		2023		2022
Current assets	$	**17,872**	$	19,561
Current liabilities		**(8,315)**		(10,165)
Net working capital		**9,557**		9,396
Adjustments				
Cash and cash equivalents		**(3,288)**		(10,682)
Current portion of long-term debt		**915**		937
Current portion of lease obligations		**729**		590
Current portion of convertible debt – host debt		**-**		3,499
Adjusted net working capital	$	**7,913**	$	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 twelve months ended December 31, 2023, and 2022 were as follows:

	Three months ended December 31				Twelve months ended December 31			
		2023		2022		**2023**		2022
Net income (loss)	**$**	**2,039**	$	(1,247)	**$**	**1,235**	$	(5,561)
Finance costs		**101**		215		**474**		755
Depreciation and amortization		**570**		508		**2,246**		1,856
Provision of deferred / current taxes		**(46)**		(713)		**342**		(880)
EBITDA		**2,664**		(1,237)		**4,297**		(3,830)
Unrealized foreign exchange (gain)		**89**		146		**77**		117
Accretion costs		**-**		106		**139**		391
Revaluation of derivatives		**-**		(5)		**21**		6
Share of losses of Glavel Inc.		**56**		34		**56**		34
Stock based compensation		**45**		147		**329**		610
Adjusted EBITDA	**$**	**2,854**	$	(809)	**$**	**4,919**	$	(2,672)

(in 000's Canadian Dollars)

Appendix C – Covenant calculations

		As at December 31, 2023
CIBC covenants		
Current ratio		
Formula: Current assets / adjusted current liabilities		
Current assets	$	**17,872**
Current liabilities		**8,315**
Current ratio		**2.15**
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	$	**915**
Long term debt		**1,014**
Adjusted long term debt		**1,929**
Adjusted EBITDA (rolling 12-months)		**4,919**
Debt to EBITDA ratio		**0.39**
Covenant tested quarterly, not to exceed 3x		**3.00**
		Covenant Met
Debt Service Coverage ratio		
Formula: EBITDA / debt service		
Rolling 12-month EBITDA		**4,919**
Interest paid		**522**
Repayment of finance lease obligations		**775**
Repayment of long-term debt		**933**
Current taxes		**65**
Total interest, principal repayments, & cash taxes		**2,295**
Debt service coverage ratio		**2.14**
Covenant tested annually, not less than 1.5		**1.50**
		Covenant Met

	As at December 31, 2023
BDC covenant	
Debt Service Coverage ratio	
Formula: EBITDA / debt service	
Rolling 12-month EBITDA	**4,919**
Interest paid	**522**
Repayment of finance lease obligations	**775**
Repayment of long-term debt	**933**
Current taxes	**65**
Total interest, principal repayments, & cash taxes	**2,295**
Debt service coverage ratio	**2.14**
Covenant tested annually, not less than 1.1	**1.10**
	Covenant Met