CEMATRIX CORPORATION
Management's Discussion and Analysis
For the Year Ended December 31, 2014

Date Completed: March 25, 2015

<u>CEMATRIX CORPORATION</u>
<u>www.cematrix.com</u>

Form 51-102F1 - Management's Discussion & Analysis
For the Year Ended December 31, 2014

The following is the management's discussion and analysis ("MD&A") of CEMATRIX Corporation ("CEMATRIX" or the "Company") for the year ended December 31, 2014. This MD&A should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2014 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, 2013 and related notes thereto. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations of the International Reporting Interpretation Committee ("IFRIC") in effect at December 31, 2014. All dollar figures included therein and in this MD&A are in Canadian dollars.

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

The Audit Committee of the Company reviewed and recommended for approval by the Board of Directors of the Company the 2014 audited Consolidated Financial Statements and MD&A for the year ended December 31, 2014. The Board of Directors of the Company reviewed and approved these audited Consolidated Financial Statements and MD&A on March 25, 2015.

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Forward Looking Statements

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

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

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

The Company has discussed, in Section D. – Key Market Drivers and in Section E. - Key Risks and Uncertainties of its MD&A 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 Canadian standard setters.

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

A. Purpose of the Company's MD&A

The purpose of this MD&A is to provide a narrative explanation, through the eyes of management, to assist the reader in understanding the Company's performance for the year ended December 31, 2014, the Company's financial condition as at December 31, 2014 and its future prospects.

B. Corporate Overview, Annual Review and Highlights

Corporate Overview

Through its wholly-owned subsidiary, CEMATRIX (Canada) Inc. and its subsidiary CEMATRIX (USA) Inc., the Company uses specially developed equipment and proprietary or exclusive use foaming agents to produce and pour cellular concrete for various applications in the infrastructure and oil and gas 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 generally 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 in the construction market for infrastructure in Western Canada and Ontario and on a selective basis in Quebec, the Northwest Territories and the United States of America ("U.S.) and the oil and gas sector in Western Canada.

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

The oil and gas sector primarily relates to work on refinery, oil sand facilities and tank base construction projects that are funded by various corporations in this sector. Some examples of the type of work are as follows: the insulation of shallow utilities, facility floors, pile caps, modules and tank bases.

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

The nature of the Company's sales is usually "one-off" type sales, meaning there is little in the way of carry over in sales from year to year; 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 goal is to increase this type of repeatable and predictable source of revenue.

Work in both market sectors 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, as follows:

Dry mix production equipment is fully 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; and

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 two dry mix units that can produce up to 125 cubic metres per hour of cellular concrete and four wet mix units that have the capability of producing 35 to 100 cubic metres per hour of cellular concrete. A new dry mix unit and a wet mix unit, which are under construction, will be commissioned early in 2015. 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 (the "Value Proposition").

The Company`s customer service solution is supported by acquired and internally developed technologies that enable the production of high volumes of consistent, low density insulating cellular concrete; the North American exclusive rights to a protein based foaming agent and an acquired synthetic foaming agent formula; the proprietary material mix 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 past few 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 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. As an example, with the completion of the two new production units in early 2015 the Company will have the seasonally adjusted equipment production capacity to increase annual sales volume to approximately 390,000 cubic metres, or up to $50 million in sales.

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

Annual Review and Highlights

CEMATRIX finished the year with a solid fourth quarter with sales of $4,413,347, up from $1,436,118 in 2013 and operating income of $945,979, up from a loss of $229,516 in 2013. The gross margin percentage for the quarter was 32.5%, up from 15.0% in 2013.

Yearly sales grew by 7.9% to $8,712,193, up from $8,072,148 in 2013 and the operating loss was reduced to $53,212 from $96,560 in 2013. The gross margin percentage for the year was 21.7%, as compared to 20.9% for the previous year. In 2014 the margin percentage reflects the costs of carrying operations for a full year when 50.7% of the sales were generated in the fourth quarter. In addition, the Company experienced operating inefficiencies with the heavy workload in the fourth quarter of 2014, where a significant portion of the work occurred in November and December under extreme winter conditions.

Changes to project schedules by CEMATRIX customers resulted in $2.8 million of work, previously scheduled for 2014, being pushed into 2015. This shift in the timing of projects included the Company's largest contract to date of $6.8 million, $1.5 million of which was originally scheduled to be completed in the fall of 2014. This project is now underway, but the majority of the contracted volume is now scheduled to be placed from late spring to the fall of 2015.

The Company now has $9.9 million of sales contracts in place, of which $8.9 million is for projects currently scheduled for 2015, and $1 million is for a project scheduled for 2016. The dollar value of the projects contracted to date for 2015 is significantly higher than the $2.0 million at this time in 2014. In addition, the Company has placed numerous bids on other projects currently scheduled to be completed in 2015 and beyond, but is unable to ascertain at this time how many of these projects, if any, will result in additional contracted work for the Company.

In 2014, the Company experienced significant growth in the oil and gas sector of Western Canada as sales increased to $3,909,158, up from $1,249,152 in 2013.

Infrastructure sales of $4,803,035 were down $2,019,956 from 2013 due to the decline in sales in Ontario. The number of projects in Ontario actually increased, however, one project alone generated $2.8 million in sales in 2013, as compared to $0.5 million from this project in 2014. Infrastructure sales in Western Canada and the U.S. both increased over 2013, however, the main focus on growth in the infrastructure market remains is in the Ontario and potentially the Quebec market, on a selective basis.

The operating results in 2014 were impacted by a non-cash share based compensation expense of $324,590, up from $17,438 in 2013. In 2014, 2,640,000 stock options were issued to certain directors and employees to replace stock options that had previously expired. The increase in the non-cash stock based compensation was due to a significant portion of the 2014 stock options vesting in 2014. Under IFRS rules, the associated non-cash stock based compensation expense related to stock options has to be expensed based on the vesting privileges of the particular option grants.

In 2014 finance costs were up by $139,022, due principally to the interest on increased long term debt incurred for the construction of two new production units, which will go into service early in 2015, and to fund operations. During the year the Company drew down on its BDC Capital Financing loan and issued a secured debenture to finance these expenditures.

The loss before income taxes was $597,646 in 2014 as compared to $247,009 in 2013. The increase in gross profit margin due to higher sales and the improved gross margin percent was more than offset by higher operating costs, higher non-cash stock based compensation expense and higher finance costs.

The Company continues to focus its effort to gain broad market acceptance for its products for numerous applications in infrastructure markets throughout Canada. Management believes that this market sector offers a real opportunity for continued revenue growth as the Company moves toward a broader market acceptance for a number of its applications, particularly in the Ontario region. The Company is planning to locate a physical facility in Ontario sometime early in the 2015 construction season. This will allow the Company to permanently locate a part of its production fleet and staff in Eastern Canada. The Company has also added a full time sales representative for the Eastern Canada infrastructure market.

The Company continues to aggressively pursue work in the Western Canada oil and gas market sector. However, much of this potential work is subject to individual project schedules that can often change depending on the particular oil and gas company involved and its outlook on the future of oil and gas prices, the associated cash flow, its access to financing to fund these large capital intensive projects and the current bottleneck in getting its oil to markets among other things. The Company’s contracted, and other forecast projects in this market, for 2015, are continuing, as scheduled, as there doesn’t appear to be any cancellations for any of the large oil sands projects already underway.

Over the past ten years the Company has experienced delays, and a few cancellations, of projects in the oil and gas sector. As a result, it is difficult for the Company to forecast this type of work, on a year over year basis.

Even so, the Company remains optimistic that the opportunities in this market will be significant in the coming years based on the announced projects in this market, and the Company’s involvement in the design and engineering phase of many of these projects, together with the expectation that oil and gas prices will rebound from current prices.

Some Highlights for 2014

- The Company put in place a record $17.3 million of contracted sales in 2014 and has added $1.4 million of new contracts since the 2014 year end.

- The Company has a record $8.9 million of contracted sales currently scheduled for 2015, of which a significant portion is scheduled for the first six months of the year. The Company has a further $1 million of projects under contract for 2016.

- Two new production units will go into service early in 2015. The addition of this equipment will add to the production capability and provide greater flexibility in covering sales in the wide geographical regions that the Company services.

- The Company`s wholly owned subsidiary, CEMATRIX (Canada) Inc., issued a $1 million secured debenture to provide funding for capital spending and operations.

- The Company continued its focus on health and safety, by ensuring a safe work place and maintaining all of its safety certifications and registrations. 2014 was another injury free year with no lost time medical incidents.

C. Business Strategy for Growth and Shareholder Value Creation

CEMATRIX's goal is to be the leading supplier of competitively priced, high volume, high quality cellular concrete in North America. In order to accomplish this, CEMATRIX's strategy is to continue to build a strong foundation for its business from its base province, Alberta, and then continue by opening new infrastructure construction markets throughout the balance of Canada and the United States.

This business strategy is centered on the following key elements:

- Establish and maintain a strong financial position;
- Grow the business through:
  - Building a foundation of key proven applications in existing markets;
  - Methodical regional expansion of these developed applications;
  - Expansion into the U.S. market; and
  - Plan and execute the timely acquisition and upgrading of the Company's production fleet of equipment.
- Retention, recruitment and maintenance of an experienced and focused management, operations and support team;
- Development and acquisition of technologies to maintain competitiveness; and
- Development of strategic alliances to support research and development, to supply raw materials and to develop new products and markets.

CEMATRIX is currently working on expanding its infrastructure markets geographically in Western Canada and Ontario, while selectively bidding on projects in Quebec, the Northwest Territories and the U.S. in order to utilize unused production capacity. The infrastructure market segment provides the opportunity for continued growth in sales, while working to reduce the effect of seasonality.

There continue to be opportunities in the construction market in the oil and gas sector of Western Canada. Although the current low commodity prices have affected this sector recently it is expected that many of the announced project delays, in particular on oil sands projects, will be revived in the coming years. However, the timing of work in this sector is difficult to forecast.

D. Key Market Drivers

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

Effect of low oil prices and the availability of capital by companies to invest in projects

The development of the oil sands and refineries in Alberta are dependent on the availability of capital to companies making these investments as well as their outlook for oil prices as well as gas prices. Recently the price for oil have been negatively affected by the impact of perceived excess supply in global markets. Oil prices for Western Canada were also negatively affected in 2014 due to reduced take away capacity on connecting pipelines. The individual company`s views on these factors affects the timing of projects for which the Company already has contracts for supply of cellular concrete and the commencement of other projects which could be specified to use various quantities of the Company's products. Despite the tight capital markets and low oil prices, the projects in which the Company has contracted, or is in the process of contracting for work in 2015, are currently proceeding, as planned. A number of large oil and gas companies have already cut their capital budgets significantly, but these cuts have mainly been in the drilling sector and oil field servicing and in projects that have not yet proceeded to the construction stage. This doesn't mean that further cuts won't be made in the future, that may affect the projects that the Company has contracts on.

Whether CEMATRIX will participate in other oil sand and refinery projects will be dependent on the recovery of the commodity prices and capital markets and the Company's ability to convince the project design engineers of CEMATRIX's Value Proposition, which is largely dependent on the Company's experiences to date.

Availability of capital for infrastructure construction

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

Product Acceptance

CEMATRIX's mission statement is to gain broad market acceptance of its product for various applications throughout North America, with its main focus on infrastructure and Canadian oil and gas construction applications. 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 oil and gas and 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 has been and continues to be completed by the Company to demonstrate its Value Proposition for cellular concrete for a number of applications.

The Company's ongoing education and marketing program, together with the experience generated from projects throughout its markets in Canada and the U.S. has improved the acceptance by a number of design engineers, particularly in Canada where CEMATRIX continues to develop new markets.

For some applications in these new markets, cellular concrete will also need to be accepted and become an approved product by various municipal and provincial government departments.

In this regard:

- The Alberta Ministry of Infrastructure and Transportation has provided approval of cellular concrete for grouting and conditional approval for all other infrastructure applications pursued by the Company.

- The Government of British Columbia has provided approval of its acceptance of cellular concrete as a recognized lightweight fill product and it is now listed in the province's approved product list.

- The province of Manitoba has no formal approval process but the Ministry of Transportation for this province together with the City of Winnipeg and engineering firms located in Manitoba have continued their acceptance of cellular concrete as a bridge abutment and MSE panel backfill material by regularly specifying this material into these types of projects.

- The Ministry of Transportation of Ontario (MTO) has approved the product as light weight material on projects under its jurisdiction and The Road Authority for Ontario regions and Municipalities has given the Company's product acceptance status for use in Ontario regions and municipalities, although further approval will be required when using the company's cellular concrete as a backfill behind, MSE panels walls.

- Cellular concrete is already an approved product for various infrastructure applications in many regions of the U.S.

Continued product acceptance by the engineering community and provincial transportation departments is important to support the Company's sales growth.

Sole Source Provider

When engineering firms and companies are considering specifying cellular concrete into a specific project, particularly in projects related to oil sands and refinery construction, a concern that can arise is the fact that CEMATRIX is the sole provider of cellular concrete in Alberta and for many other regions of Canada. Their concern is that if CEMATRIX is not available to complete their project, then there may be no one else that can do the work as specified. In many cases, this will mean that the project will have to be re-engineered because cellular concrete is not a one for one direct replacement to the products that it replaces. This is less of an issue for a number of infrastructure applications because there are other more expensive product solutions that may be specified as an alternative to the Company's product.

In some instances, owners of projects will not allow the use of a sole provider and others continue to be hesitant to do so, because the costs of re-engineering could be prohibitive. This practice has slowed the development of CEMATRIX's product penetration in Western Canada and has affected the development of other markets in Canada. The Company continues to work with customers, specifiers and design engineers to ensure that the benefits of the CEMATRIX products and services warrant the use of a sole source provider and to ensure these customers that CEMATRIX will be around to be that provider. This is less of an issue in the United States where there are a number of established cellular concrete producers.

If engineering firms and companies do not accept the nature of CEMATRIX being a sole source supplier this could affect the ability of the Company to grow its sales.

Research and Development

Increasingly customers, particularly in the infrastructure market, are requesting third party verification of the various properties of CEMATRIX's cellular concrete products and applications that have never been required in the past. As a result, the Company is regularly required to hire third parties to provide these requested engineering test results.

The availability of third party test results on CEMATRIX's cellular concrete products and applications is important for future sales growth, particularly in the infrastructure sector. Without these there could be certain projects that the Company would not be considered for and this could affect the ability of the Company to grow sales in this market.

E. Key Risks and Uncertainties

Besides the issues discussed under Section D - Key Market Drivers, management has identified the following additional risks and uncertainties:

Under Capitalization

The Company has been undercapitalized since its inception and this situation continues to hinder it from establishing adequate operational support for the expected significant increase in sales, as product acceptance continues to grow. To date, cash from operations hasn't provided the necessary funds to support the hiring and training of additional operations and technical staff, or to establish base operating facilities for Eastern Canada, even though the Company has been able to expand its production capacity from an equipment perspective and increase its technical sales capability.

In addition, banks in general are concerned with the effect on companies involved in the oil and gas construction industry, so they are less amenable to increases in operating line financing, even if sales continue to increase, like they did for the Company in the fourth quarter of 2014. Accordingly, the Company continues to be more reactionary in its preparation for growth, as opposed to being in the position it would like to be, which would be more proactive. The inability to prepare for the forecasted growth increases the risk that the Company will not be able to achieve its growth expectations and/or that the cost to achieve that growth may be higher that currently expected.

The Company can reduce the effect of the risk of being undercapitalized by either raising additional capital in a difficult market or generate it from operations. The latter method is preferred, but the Company continues to explore its options.

Staffing Requirements

Staff required to operate the Company's equipment require extensive training and work experience time. The Company has retained its key equipment operators and other staff but faces a challenge in recruiting and training additional skilled labour if sales demand increases more quickly than anticipated. In Ontario and the U.S., the Company has established relations with the appropriate unions that have helped in providing labour and operators in these markets. However, the Company is currently not in an optimum position to hire, train and retain sufficient operations staff to meet the sales growth expected over the next few years.

Capital Resource Requirements

Capital resource requirements must be matched to the demand for the Company's products. If demand increases more quickly than anticipated, the Company may be challenged to react quickly enough to realize the sales opportunities. The Company continues to evaluate various equipment options to enable the Company to be in a better position to react to these changing market conditions. Even so, there is no guarantee that financing would be available to fund new capital asset requirements, nor is there certainty that the Company could react in a timely fashion to new capital asset requirements, even if the financing is available. However, as noted earlier in Corporate Overview, the Company has sufficient equipment in place to enable significant growth in sales without adding additional production capacity.

Project Scheduling

The Company has no control over the timing of contracted projects. Delays in the contracted work can occur at any time. Furthermore, delays in projects can also result in scheduling issues that can prove costly to the Company. Both the rescheduling of projects and the costs associated with those changes had a significant effect on the Company in 2014, particularly with over fifty percent of the 2014 sales, shifted into the fourth quarter and others that shifted into 2015. The risks associated with scheduling changes will be an ongoing issue for the Company.

Cement Supply

The Company has experienced shortages in its key raw material, cement, in the past, meaning several years ago. As there are alternatives to the Company's products, such as granular fills, rigid and other types of insulating materials that the Company's cellular concrete is replacing, shortages of cement may have an adverse effect on the Company's market development and forecasted sales. The Company continues to minimize the effect of this risk by working closely with the cement suppliers to secure cement as soon as the contract is executed and to alert them of future cement requirements as soon as they are known. Of note, the Company's major cement supplier is more than doubling its capacity at its plant in Western Canada, so cement supply should be less of an issue in Western Canada and this will affect the ready mix supply described below, as well.

The Company has experienced supply issues in past years, meaning several years ago, with the supply of ready mix in Alberta for wet mix type projects, because of the high demand for this product arising from the economic growth experienced in these years. Constraints on the supply of ready mix can affect the ability of the Company to grow future sales. In those years where there are ready-mix supply constraints, the Company attempts to maximize the utilization of dry mix process equipment that uses cement powder, in lieu of ready-mix slurry, to meet market demands. The Company continues to pursue production equipment design and construction to reduce the Company's reliance on ready-mix products.

Increasing Cement Commodity Prices

In previous years the Company has experienced significant increases in the cost of its key raw materials, cement and flyash. 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 profit margin on sales. The prices for these materials have remained relatively stable over the past few years and the Company has been advised by its suppliers of minor increases for 2015. The Company is working towards minimizing any risk by developing equipment that will eliminate the need to rely on higher priced ready mix products for its raw material supply, for these types of projects.

Competition

Although the Company is the only significant supplier of cellular concrete in Alberta and the balance of Canada, there are other suppliers in the U.S. and other countries, and accordingly the possibility of future competition exists. Competition could result in lost sales or reduced profit margins. The Company is positioning itself for competition with other suppliers, by

- Developing strong customer relationships;
- Ensuring that its costs are competitive in relation to costs being incurred by other companies in the industry;
- 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, 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.

F. Operations and Overall Performance

Results of Operations

Comparison of the Quarter Ended December 31, 2014 and December 31, 2013

	Three Months Ended December 31		
	2014	2013	Change
Revenue	$ **4,413,347**	$ 1,436,118	$ 2,977,229
Gross margin	$ **1,435,150**	$ 215,538	$ 1,219,612
Operating expenses	**(489,171)**	(445,054)	(44,117)
Operating income (loss)	**945,979**	(229,516)	1,175,495
Non-cash stock based compensation	**(194,826)**	(3,999)	(190,827)
Finance costs	**(87,794)**	(27,231)	(60,563)
Other expenses	**(2,365)**	(34,269)	31,904
Income (loss) before income taxes	**660,994**	(295,015)	956,009
Recovery (provision) of deferred taxes	**(208,041)**	38,500	(246,541)
Net income (loss) attributable to the common shareholders	**452,953**	(256,515)	709,468
Unrealized foreign exchange gain on translation of foreign subsidiary	**7,122**	8,283	(1,161)
Total comprehensive income (loss)	$ **460,075**	$ (248,232)	**$** 708,307
Fully diluted income (loss) per common share	$ **0.012**	$ (0.008)	**$** 0.020

	Three Months Ended December 31		
	2014	2013	Change
Revenue			
Infrastructure			
Western Canada	**$ 863,207**	$ 137,398	$ 725,809
Ontario	**770,699**	1,192,205	(421,506)
United States	**670,027**	-	670,027
	2,303,933	1,329,603	974,330
Oil and Gas	**2,109,414**	106,515	2,002,899
	$ 4,413,347	$ 1,436,118	$ 2,977,229

Total revenue for the quarter ended December 31, 2014 was $4,413,347, up $2,977,229 from the revenue reported in the same quarter in 2013. This increase was largely related to the timing of projects, as a majority of the 2014 projects were pushed into the fourth quarter by the Company's customers. Oil and gas sector sales were up by $2,002,899 over the same period in 2013 because of increased demand, but partly just from timing. Infrastructure sales were up $974,330 over the same period in 2013, with most of the increase coming from projects in Western Canada and the U.S. Part of the increase was also related to timing as sales were pushed into the fourth quarter.

The gross margin on sales was $1,435,150 or 32.5% in the fourth quarter of 2014 as compared to $215,538 or 15.0% in the same period of 2013. The increase in the gross margin dollars of $1,219,612 was due to the increase in revenue, discussed previously, combined with an increase in the gross margin percentage rate of 17.5 percentage points. The increase in the gross margin percentage is due to the increase in sales in the oil and gas sector, which tend to generate higher margins, combined with the fixed costs being spread over larger volumes. Management expected the fourth quarter margins to be higher, however, the Company experienced operating inefficiencies with the heavy workload in the quarter, where a significant portion of the work occurred in November and December under extreme winter conditions

Operating expenses increased by $44,117 due to the aggregate of the following:

- Salaries and benefits were up $32,500 due to non-senior management salary increases and the addition of new staff;

- Commission was up $19,200 due to the increase in sales discussed previously;

- Business development costs were up $18,400 with the addition of sales staff, as the Company continues to work to develop its markets:

- Bad debt expense decreased by $65,700 - in the fourth quarter of 2014 the Company recorded a recovery of bad debt of $3,144; in the fourth quarter of 2013 Company recorded a provision against certain accounts of $62,556; these bad debt provisions were not bad credit related but related to amounts billed to certain customers, that became subject to a negotiated settlement; and

- Other costs were up by $39,717.

Non-cash stock based compensation of $194,826 was up by $190,827 as a result of the issuance of new stock options to certain employees in October 2014 to replace stock options that had expired. The increase in the non-cash stock based compensation was due to a significant portion of the 2014 stock options vesting in 2014. Under IFRS rules, the associated non-cash stock based compensation expense related to stock options has to be expensed based on the vesting privileges of the particular option grants.

Finance costs were up $60,563; the increase is principally due to higher debt levels including funding from the BDC Capital Financing for the construction of the new dry mix production unit and the new secured debenture issued in February to fund other capital expenditures and operations. Also included in finance costs in the fourth quarter is a non-cash fair value adjustment on share acquisition loans (see note 7 to the Consolidated Financial Statements).

Other expenses were lower $31,904:

- In the fourth quarter of 2014 a foreign exchange loss of $2,365 was incurred; in the comparative period of 2013 a foreign exchange gain of $468 was reported.

- In the fourth quarter of 2013 the Company recorded an adjustment of $34,737 to reduce the carrying value of idle equipment to its estimated realizable value.

A provision of deferred taxes of $208,041 was recorded in 2014; in 2013 a deferred tax recovery of $38,500 was recorded in 2013.

Unrealized foreign exchange gain on translation of foreign subsidiary was $7,122 in 2014 as compared to $8,283 in 2013.

The total comprehensive income for the quarter ended December 31, 2014 was $460,075 compared with a total comprehensive loss of $248,232 for the same period in 2013. The improvement $708,307 was due primarily to higher sales and profit margins in the quarter as partially offset by higher operating costs, higher non-cash stock based compensation and higher finance costs

Comparison of the year ended December 31, 2014 and December 31, 2013

	Year Ended December 31		
	2014	2013	Change
Revenue	**$ 8,712,193**	$ 8,072,148	$ 640,045
Gross margin	**$ 1,888,641**	$ 1,688,985	$ 199,656
Operating expenses	**(1,941,853)**	(1,785,545)	(156,308)
Operating loss	**(53,212)**	(96,560)	43,348
Non-cash stock based compensation	**(324,590)**	(17.438)	(307,152)
Finance costs	**(232,890)**	(93,868)	(139,022)
Other expenses	**13,046**	(39,143)	52,189
Loss before income taxes	**(597,646)**	(247,009)	(350,637)
Recovery of deferred taxes	**26,858**	26,581	277
Net loss attributable to the common shareholders	**(570,788)**	(220,428)	(350,360)
Unrealized foreign exchange gain (loss) on translation of foreign subsidiary	**(15,021)**	11,837	(26,858)
Total comprehensive loss	**$ (585,809)**	$ (208,591)	**$** (377,218)
Fully diluted loss per common share	**$ (0.017)**	$ (0.007)	$ (0.010)

	Year Ended December 31		
	2014	2013	Change
Revenue			
Infrastructure			
Western Canada	**$ 2,680,432**	$ 2,422,572	$ 257,860
Ontario	**1,452,576**	4,081,273	(2,628,697)
United States	**670,027**	319,146	350,881
	4,803,035	6,822,991	(2,019,956)
Oil and Gas	**3,909,158**	1,249,157	2,660,001
	$ 8,712,193	$ 8,072,148	$ 640,045

Revenue for 2014 was $8,712,193 compared to $8,072,148 for 2013, an increase of $640,045. Oil and gas sector sales were $3,909,158, up by $2,660,001 from 2013 because of increased demand. Infrastructure revenue of $4,803,035, was down by $2,019,956 from 2013. The number of projects completed in Ontario actually increased, however, one 2013 project alone generated $2.8 million in sales, as compared to $0.5 million from this project in 2014.

The gross margin percentage for the year was 21.7% for the year, as compared to 20.9% for the previous year. In 2014 the margin percentage reflects the costs of carrying operations for a full year when 50.7% of the sales were generated in the fourth quarter. In 2013 the margin percentage reflects lower introductory rates on certain infrastructure projects, particularly in Ontario, to develop this market.

Operating expenses increased by $156,308 due to the aggregate of the following:

- Salaries and benefits were up $120,000 due to non-senior management salary increases and the addition of new sales and technical staff;
- Business development costs increased by $30,000 due to the addition of new sales and technical staff;
- Third party testing costs increased by $12,500 due to increased testing required for certain customers;

- Bad debt expense decreased by $56,493 – In 2014 the Company recorded bad debt expense of $24,907; in 2013 the Company recorded a provision against certain accounts of $81,440; these bad debt provisions are not credit related but relate to amounts billed to certain customers, that became subject to a negotiated settlement; and

- Other costs increased by $50,301.

Non-cash stock based compensation of $324,590 was up by $307,152 as a result of the issuance of new stock options to certain directors and employees in 2014 to replace stock options that had expired. The increase in the non-cash stock based compensation was due to a significant portion of the 2014 stock options vesting in 2014. Under IFRS rules, the associated non-cash stock based compensation expense related to stock options has to be expensed based on the vesting privileges of the particular option grants.

Finance costs were up $139,022; the increase is principally due to higher debt levels, including funding from the BDC Capital Financing for the construction of the new dry mix production unit, the new secured debenture issued in February to fund other capital expenditures and operations. Also included in finance costs in 2015 is a non-cash fair value adjustment on share acquisition loans (see note 7 to the Consolidated Financial Statements).

The change in other income and expenses had a positive effect on income for the year of $52,189:

- In 2014 a foreign exchange gain of $13,046 was incurred related to the realized foreign exchange gain on $US trade receivables; this compared to a foreign exchange loss of $4,406 incurred in 2013; and

- In 2013 the Company recorded an adjustment of $34,737 to reduce the carrying value of idle equipment to its estimated realizable value.

A recovery of deferred taxes of $26,858 was recorded in 2014 as compared to a recovery of $26,581 recorded in 2013.

Unrealized foreign exchange gain (loss) on translation of foreign subsidiary was a loss of $15,021 in 2014, as compared to a gain of $11,837 in 2013; the loss is due to the strengthening of the U.S, dollar as compared to the Canadian dollar combined with an increase in the losses in the U.S, subsidiary.

The total comprehensive loss was $585,809 for 2014 compared with a total comprehensive loss of $208,581 for the same period in 2013. Increased sales and profit margins thereon were more than offset by higher operating costs, non-cash stock based compensation and higher finance costs.

G. Selected Financial Information and Summary of Financial Results

Annual Results

The following is a summary of the audited financial results for each of the five years ended December 31, 2014. No cash dividends have been declared or paid since the inception of the Company.

Year Ended	Total Revenues	Total Comprehensive Income (Loss)	Income (Loss) Per Share Basic	Income (Loss) Per Share Diluted	Total Assets	Total Non Current Liabilities
	$	$	$	$	$	$
December 31, 2014	**8,712,193**	**(585,809)**	**(0.02)**	**(0.02)**	**9,259,642**	**2,016,125**
December 31, 2013	8,072,148	(208,591)	(0.01)	(0.01)	5,845,487	816,234
December 31, 2012	8,549,150	857,288	0.03	0.03	6,022,109	491,620
December 31, 2011	7,827,123	403,462	0.01	0.01	4,627,751	137,630
December 31, 2010	3,257,197	(776,394)	(0.02)	(0.02)	4,054,777	313,491

Quarterly Results

Due to the seasonal nature of the Company's business, which typically follows the construction season in Canada, a significant portion of the Company's sales occur between the latter part of the second quarter and the first half of the fourth quarter, on an annual basis. In 2014 a number of project were delayed until the fourth quarter. This seasonality continues to be reflected in the quarterly results summarized in the table below:

			Income (Loss)	
Quarters Ended	Total Revenues	Total Comprehensive Income (Loss)	Per Share Basic (1)	Per Share Diluted (1)
	$	$	$	$
2014 Year				
March 31	**260,960**	**(722,558)**	**(0.022)**	**(0.022)**
June 30	**3,070,504**	**82,668**	**0.003**	**0.003**
September 30	**967,382**	**(405,994)**	**(0.012)**	**(0.012)**
December 31	**4,413,347**	**460,075**	**0.013**	**0.012**
Total for year	**8,712,193**	**(585,809)**	**(0.017)**	**(0.017)**
2013 Year				
March 31	1,997,842	(5,255)	-	-
June 30	2,790,218	101,110	0.003	0.003
September 30	1,847,970	(56,214)	(0.002)	(0.002)
December 31	1,436,118	(248,232)	(0.008)	(0.008)
Total for year	8,072,148	(208,591)	(0.007)	(0.007)

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

H. Consolidated Statements of Financial Position

	December 31 2014	December 31 2013	**Change**
Total current assets	**$ 4,930,969**	$ 2,156,801	$ 2,774,168
Total non current assets	**4,328,673**	3,688,686	639,987
Total Assets	**$ 9,259,642**	$ 5,845,487	$ 3,415,155
Current liabilities	**$ 3,573,850**	$ 1,295,542	$ 2,278,308
Non current liabilities	**2,016,175**	816,234	1,199,941
Total liabilities	**$ 5,590,025**	$ 2,111,776	$ 3,478,249
Shareholders' equity	**$ 3,669,617**	$ 3,733,711	$ (64,094)

Total current assets were $4,930,969 at December 31, 2014 compared to $2,156,801 at December 31, 2013. This increase of $2,774,168 was largely due to the timing of sales and is summarized in aggregate below:

- Cash in the bank increased by $33,002 (See the discussion in Section I - Consolidated Statement of Cash Flows);

- Trade and other receivables increased by $2,721,889 as a result of the substantial increase in sales in the fourth quarter of 2014 as compared with the fourth quarter of 2013 and the timing of collection of these sales;

- Inventory decreased by $14,773 as the purchase of replacement foaming agent was more than offset by the significant usage of foaming agent in the fourth quarter of 2014;

- Prepaid expenses and deposits increased by $13,293; and

- Current portion of share acquisition loans of $20,757 was reclassified (see below).

Total non current assets were $4,328,673 at December 31, 2014 compared to $3,688,682 at December 31, 2013. This increase of $639,987 was largely due to the construction of two new production units and is summarized in aggregate below:

- Share acquisition loans of $113,125 were reclassified as a receivable. These loans were issued to management in previous years to purchase shares of the Company. In 2014 the terms of these loans were changed to introduce equal annual repayments of $22,625 beginning in 2015 such that the loans will be fully repaid by December 31, 2019. Prior to this change these loans were included as a reduction of share capital. For accounting purposes, because the loans bear no interest, the loans need to be fair valued using the effective interest rate method. The non-cash fair value adjustment reduces the carrying value by $20,757 of which $1,868 relates to the current portion (see note 7 to the Consolidated Financial Statements)

- Property and equipment increased by $545,882 - additions to property and equipment were $885,862 and this was offset by depreciation expense of $339,980; and

- Intangibles remained at the same amount: no amortization is recorded on the remaining trademarks and technology as the Company views these as having an indefinite life.

- In 2043 there was an addition of $26,858 to the deferred tax asset (see the discussion in Section F - Operations and Overall Performance).

Total current liabilities were $3,578,850 at December 31, 2014 compared to $1,295,542 at December 31, 2013. This increase of $2,278,308 was largely due to the timing of sales and the related costs and is summarized in aggregate below:

- Bank overdraft, which represents checks written at the reporting date in excess of the bank balance, increased by $141,045; this is principally due to increased sales and the related costs in the fourth quarter of 2014 as compare to the same quarter in 2013 and the timing of payments to suppliers;

- Bank operating loan increased by $675,000; this is mainly due to increased sales and the related costs in the fourth quarter of 2014 as compared to the same quarter in 2013 and the timing of payment of suppliers and collection of sales in the two comparative quarters;

- Trade and other payables increased by $1,461,008 principally due to increased sales and the related costs in the fourth quarter of 2014 as compared to the last quarter of 2013;

- Current portion of long term debt remained the same and represents the scheduled repayments under the BDC Financing (see note 12 to the Consolidated Financial Statements); and

- Current portion of finance lease obligations was up $1,255 due to scheduled repayments of $54,263 as offset by the reclassification from the long term portion of $55,518.

Total non current liabilities were $2,016,175 at December 31, 2014 compared to $816,234 at December 31, 2013. This increase of $1,199,941 was largely due to the increase in long term debt to finance the construction of two new production units and is summarized in aggregate below:

- Long term debt was up by $1,255,459; $542,121 was drawn down for the construction of new equipment under the BDC Capital Financing, a $1,000,000 secured debenture was issued and repayments on the BDC Financing were $286,662; and

- Finance lease obligations were down $55,518 compared to the level as at December 31, 2013 due to reclassification to the current portion as discussed above under the current portion of finance lease obligations.

Shareholders' Equity was $3,669,617 at December 31, 2014 compared to $3,733,711 at December 31, 2013. This decrease of $64,094 is due to the aggregate of the following:

- Share capital increased by $236,294; 560,000 shares were issued at $0.15 for proceeds of $84,000 on the exercise of employee stock options, $39,169 was reclassified from contributed surplus for the non-cash stock based compensation related to these exercised employee stock options and $113,135 related to share acquisition loans was reclassified as a receivable – see previous discussion above;

- Contributed surplus increased $239,607 due to the non-cash stock based compensation of $324,590 in the year; this was partially offset by the reclassification to share capital of $39,169 and the reclassification to deficit of $45,814 related to non-cash stock based compensation previously credited to contributed surplus for share option grants that were exercised and share options that had expired without being exercised in the year;

- Cumulative translation adjustment account decreased by $15,021 at December 31, 2014 due to the strengthening of the US dollar and the increased losses in the US subsidiary; this represents the unrealized translation effect of translating the accounts of a U.S. subsidiary; and

- The deficit increased by $524,974 due to the net loss attributable to the common shareholders for the period of $570,788 as partially offset by the reclassification of $45,814 from contributed surplus (see comments above).

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

I. Consolidated Statements of Cash Flows

Comparison of the Quarter ended December 31, 2014 and December 31, 2013

The cash position of the Company at December 31, 2014 was a negative $144,135 (consisting of cash and cash equivalents of $50,019 and a bank overdraft of $194,154) compared to a negative $36,092 at December 31, 2013 (consisting of cash and cash equivalents in the bank of $17,017 and a bank overdraft of $53,109).

The change in cash in the fourth quarter of 2014 was a decrease of $147,050, as compared to an increase of $147,738 in the same period of 2013. This change is outlined in the table below:

	Three Months Ended December 31		
	2014	2013	Change
Cash generated by (used in) operating activities			
Before non-cash working capital adjustment	**$ 975,035**	$ (144,490)	$ 1,119,525
Net change in non-cash working capital items	**(1,263,581)**	581,433	(1,845,014)
	(288,546)	436,943	(725,489)
Cash generated by (used in) investing activities	**(41,126)**	(275,580)	234,454
Cash generated by (used in) financing activities	**182,622**	(13,625)	196,247
Increase (decrease) in cash	**(147,050)**	147,738	(294,788)
Cash (cash deficiency), at beginning of period	**2,915**	(183,830)	186,745
Cash deficiency, at end of period	$ **(144,135)**	$ (36,092)	$ (108,043)
Cash deficiency			
Cash and cash equivalents	**$ 50,019**	$ 17,017	$ 33,002
Bank overdraft	**(194,154)**	(53,109)	(141,045)
	$ (144,135)	$ (36,092)	$ (108,043)

- Cash used in operating activities was $288,546 in the fourth quarter of 2014 as compared to a generation of $436,943 in the same period in 2013, a decrease of $725,489.

  - The cash flow, before non-cash working capital adjustments, was $1,119,525 higher than the same period of 2013. This was due to the increase in net income attributable to the common shareholders, before the non-cash recovery of deferred taxes, of $956,009, as compared to 2013 and the increase of $163,516 in the adjustment for non-cash items, principally the increase in non-cash stock based compensation, in the reported net income in 2014, as compared to the same period in 2013; and

  - This cash flow, before non-cash working capital adjustment, was more than offset by a higher adjustment for the net change in non-cash working capital items of $1,845,014, as compared to 2013. This is primarily due the higher sales in 2014 and the timing of collection of the related trade receivables between the two periods.

- Cash used in investing activities for the purchase of property and equipment was $41,126 in 2014 and $275,580 in 2013.

- Cash generated from financing activities was $182,622 in 2014, as compared to cash used in financing activities of $13,625 in the same period in 2013.

  - In 2014 the Company increased its bank operating loan by $255,000; made scheduled repayments of $143,331 on the BDC Financing and $13,047 on finance lease obligations; and received $84,000 on the issue of shares on the exercise of employee stock options.

- In 2013 the Company used cash from operations to reduce its bank operating loan by $130,000; drew down an additional $238,878 of the BDC Capital Financing and made scheduled repayments of $109,820 on the BDC Financing and $12,683 on finance lease obligations.

Comparison of the Year Ended December 31, 2014 and December31, 2013

The cash position of the Company at December 31, 2014 was a negative $144,135 (consisting of cash and cash equivalents of $50,019 and a bank overdraft of $194,154) compared to a negative $36,092 at December 31, 2013 (consisting of cash and cash equivalents in the bank of $17,017 and a bank overdraft of $53,109).

The change in cash in the year ended December 31, 2014 was a decrease of $108,043 as compared to an increase of $236,049 in the same period of 2013. This change is outlined in the table below:

	Year Ended December 31		
	2014	2013	Change
Cash generated from (used in) operating activities			
Before non-cash working capital adjustment	**$ 77,024**	$ 155,793	$ (78,769)
Net change in non-cash working capital items	**(1,279,401)**	455,637	(1,735,038)
	(1,202,377)	611,430	(1,813,807)
Cash generated from (used in) investing activities	**(865,862)**	(594,218)	(271,644)
Cash generated from (used in) financing activities	**1,960,196**	218,837	1,741,359
Increase (decrease) in cash	**(108,043)**	236,049	(344,092)
Cash deficiency, at beginning of year	**(36,092)**	(272,141)	236,049
Cash deficiency, at end of year	**$ (144,135)**	$ (36,092)	$ (108,043)
Cash deficiency			
Cash and cash equivalents	**$ 50,019**	$ 17,017	$ 33,002
Bank overdraft	**(194,154)**	(53,109)	(141,045)
	$ (144,135)	$ (36,092)	$ (108,043)

Cash used in operating activities was $1,202,377 in 2014 as compared to a generation of $611,430 in 2013, a change of 1,813,807.

- The positive cash flow, before non-cash working capital adjustments, was down by $78,769 compared with the same period of 2013. This was due to the decrease in net income attributable to the common shareholders, before the non-cash recovery of deferred taxes, of $350,360 compared to 2013 as partially offset by the increase of $271,591 in the adjustment for non-cash items, principally the increase in non-cash stock based compensation, in the reported net income in 2014 compared to 2013.

- This positive cash flow, before non-cash working capital adjustment, was more than offset by a higher adjustment for the net change in non-cash working capital items of $1,735,038 as compared to 2013. This is primarily due the higher sales in the fourth quarter of 2014 and the timing of collection of the related trade receivables as between the two periods.

- Cash used in investing activities for the purchase of property and equipment was $865,862 in 2014 and $594,218 in 2013; an increase of $271,644 that was due to the construction of additional equipment.

- Cash generated from financing activities was $1,960,196 in 2014 compared to $218,837 in 2013, an increase of $1,741,359.

- In 2014 the Company increased its bank operating loan by $675,000 to finance the increase in working capital in the fourth quarter; drew down $542,121 of the BDC Capital Financing loan to finance equipment construction, issued a $1,000,000 secured debenture to finance other equipment construction and to support operations, issued $84,000 of common shares on the exercise of employee stock options; and made scheduled repayments on the BDC Financing of $286,662 and on finance lease obligations of $54,263.

- In 2013 the Company reduced its bank operating loan by $75,000; drew down $500,943 of the BDC Financing to finance equipment construction; repayments on the BDC Financing were $152,720 and on finance lease obligations were $54,386.

J. Liquidity, Capital Resources and Commitments

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 its operating borrowing capacity, accessing capital debt facilities through loans or lease financing, and accessing equity markets.

At December 31, 2014, the Company had a current asset /current liability position of $1,357,119.

The Company reported positive cash generated from operations of $77,024, before the non-cash working capital adjustment.

The Company`s wholly owned subsidiary, CEMATRIX (Canada) Inc. has a demand operating facility under its Credit Facility with a Canadian chartered bank of $1,000,000. The decline in commodity prices in the Western Canada oil and gas sector has caused Canadian chartered banks to review their loan exposure in this sector, in particularly within the oil and gas service sector which the Canadian chartered bank may view the Company. The current economic situation in Alberta, combined with the Company’s reported losses for the past two years and the Company’s need to increase its operating financing to support sales growth, raises uncertainty as to whether this situation will affect the Company’s current Credit Facility with its bank.

The Company is in discussion with various parties regarding alternative financing to support its increased working capital levels should the Company’s existing Credit Facility, together with the seasonal increase, not be renewed. The alternative financing may include factoring, refinancing of assets or a new operating line with a different financial institution or possibly an equity offering later in the year. To date the Company has an offer from a couple of different sources for factoring of its receivables, so no interruption of the Company’s ability to finance its operations is anticipated.

The Company has signed contracts on hand for $8.9 million in sales scheduled for 2015 and $1.0 million for 2016.

The realization of the net working capital as at December 31, 2014, the profitable execution of the 2015 sales contracts that are in place, most of which are scheduled to be completed in the first two quarters of 2015, and the availability of its Credit Facility, or other financing alternatives, provide the necessary liquidity to carry the Company’s operations through the first part of 2015.

Ongoing liquidity through the balance of 2015 is dependent on the Company achieving additional sales and profitability.

Capital resources

The Company, with the completion of the two new production units in early 2015, has the production capacity to meet expected sales growth over the next few years. Building additional productive capacity, if required, is dependent on the Company generating the required funds from operations or new debt or equity financing. 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 finance 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 24 - Capital management to the Consolidated Financial Statements, was $6,027,936 at December 31, 2014 as compared to $4,890,894 at December 31, 2013. The increase of $1,137,042 was principally the result of the net increase (additions net of repayments) of $1,255,399 in long term debt as partially offset by a decrease in finance lease obligations of $54,263 and a decrease in shareholders' equity of $64,094 (see Section H. Consolidated Statements of Financial Position for details).

Commitments

The following is a summary of the Company's lease and debt obligations and commitments for the next five years from December 31, 2014.

Debt Category	2015	2016	2017	2018	2019
	$	$	$	$	$
Finance lease obligations (1)	65,303	43,862	41,535	5,777	2,909
BDC financing (2)	286,662	286,662	200,862	200,862	200,862
Secured Debenture	-	-	1,000,000	-	-
Operating leases (3)	277,168	277,168	277,168	277,168	277,168

(1) Includes principal and interest
(2) Based on BDC Financing drawn down as of December 31, 2014
(3) The Company currently has sub lease arrangements in place in relation to this lease that provide rent of $40,800 for 2015.

K. Off Balance Sheet Arrangements

There were no off balance sheet arrangements at December 31, 2014 or 2013.

L. Transactions with Related Parties

During the year ending December 31, 2014, the Company incurred legal fees from a firm which employs one of the directors of the Company in the amount of $17,106 ($7,818 for the year ending December 31, 2013).

There were no other significant related party transactions.

The remuneration of directors and other members of key management personnel during the year were as follows:

		2014		2013
Short term employment benefits	**$**	**431,237**	$	431,321
Non-cash stock based compensation		**226,538**		2,756
	$	**657,775**	$	434,077

Non-cash stock based compensation of $226,538 was up by $201,455 as a result of the issuance of new stock options to certain directors and officers in 2014 to replace stock options that had expired. IFRS rules require this non-cash expense to be recorded based on the vesting privileges associated with the particular stock option grants. The amount of non-cash stock based compensation is an estimate of the future value of the options, which can only be realized by the holders of those options should the stock price of the Company increase above the option exercise price and should the option holders exercise them and sell them at a stock price, which is greater than the exercise price of the options. Otherwise there is no value to the holders of those options.

M. Critical Accounting Judgments, Estimates and Assumptions

The preparation of the Consolidated Financial Statements in conformity with IFRS requires management to make judgments, 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. Judgments, estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

The key sources of these uncertainties that have a significant risk of causing material adjustment to the amounts recognized in the consolidated financial statements are discussed below:

(a) *Impairment of non-financial assets*

Impairment exists when the carrying value of an asset or cash generating unit ("CGU") exceeds its recoverable amount, which is the higher of its fair value less costs of disposal ("FVLCS") and its value in use ("VIU"). The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. For purposes of impairment testing of property and equipment and intangibles, the Company has only one CGU which is the production and placement of cellular concrete. The carrying values of non financial assets are disclosed in notes 8 and 9.

The recoverable amounts have been determined based on a value in use calculation using cash flow projections from financial forecasts approved by senior management covering a one year period (2013 – four year period) plus a terminal value. The one year period for the discounted cash flow analysis was used since financial projections beyond a one year time period are generally best represented by a terminal value. This period is appropriate given the timing of the project backlog and the predictability of the CGU cash flows.

There is a significant amount of uncertainty with respect to estimating recoverable amount given the necessity of making key economic projections related to the following key assumptions: future cash flows, industry growth opportunities, including general economic risk assumptions, gross margins, terminal value and discount rate.

The key assumptions used in the calculation of recoverable amounts are 2015 growth rates, gross margin, terminal value and discount rates:

	2014	2013
Growth rate	50%	10%
Gross margin	28%	31%
Terminal Value	6.3x	4.8x
Pre-tax discount rate	10%	10%

Near term (1 year) sales growth assumptions are based on contracted project (including backlogs), as well as probability adjusted forecasts (range of 10% to 100%) for projects on which the Company has placed or will place bids, where the probabilities applied are based on management's assessment of a particular project based on historical experience and the stage that the project is in the sales cycle. Management has also given consideration to its relationships with customers, the competitive landscape and changes in its business strategy. With regard to gross margins, consideration is given to historical operating margins in the end markets where prospective work opportunities are most significant and changes in the Company's business. A 10% change in growth rate or 5% change in gross margin in isolation would not result in an impairment charge.

The terminal value was calculated using a discount rate of 10% and an annual growth rate of 2.0% to the terminal year.

Pre-tax discount rates used reflect management's assessment of the risks of the cash operating unit and its past experience in raising capital. The Company's pre-tax discount rate has been applied based on the weighted cost of capital and reflects the current market assessments of the time value of money and the risks specific to the CGU. Furthermore, suitable sensitivity tests are also applied in conjunction with cash flow forecast for the CGU in question. A change in the absolute discount rate of 2% in isolation would not result in an impairment charge.

This exercise did not indicate any need for an impairment provision as at December 31, 2014.

(b) *Non-cash stock based compensation*
The Company measures the cost of non-cash stock based compensation transactions with employees by reference to the fair value of the equity instruments. Estimating fair value for non-cash stock based compensation transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility and dividend yield of the share option. The Company measures the cost of non-cash stock based compensation transactions with consultants by reference to the fair value of the services to be performed.

(c) *Income Taxes*
The calculation of the deferred tax asset or liability is based on assumptions about the occurrence of, and timing of many taxable events and the enacted or substantively enacted rates anticipated to apply to income in the years in which temporary differences are expected to be realized or reversed.

(d) *Allowance for doubtful accounts*
The Company makes allowance for doubtful accounts based on an assessment of the recoverability of receivables. Allowances are applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Management specifically analyses historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in customer payment terms when making a judgment to evaluate the adequacy of the allowance for doubtful debts of receivables. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables.

N. Changes in Accounting Policies including Initial Adoption.

New accounting policies

During 2014 the Company adopted a number of new IFRS standards and amendments in accordance with the transitional provisions of each standard as outlined below:

IAS 36 Impairment of assets - the amendments to IAS 36, issued in May 2013, require the disclosure of the recoverable amount of impaired assets; and additional disclosures about the measurement of the recoverable amount when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount.

The adoption of these standards does not have any impact on the Company's consolidated financial statements.

Future accounting pronouncements

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning on or after January 1, 2015 or later periods. The standards impacted that are applicable to the Company are as follows:

IFRS 8 Operating segments - the amendments to IFRS 8, issued in December 2013, require an entity to disclose the judgments made by management in applying the aggregation criteria for reportable segments. The amendments will only affect disclosure and are effective for annual periods beginning on or after July 1, 2014.

IFRS 9 Financial instruments – in July 2014, the ISAB issued IFRS 9 to replace IFRS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 includes a logical model for classification and measurement, a single forward-looking expected loss impairment model and a substantially-reformed approach to hedge accounting. IFRS 9 is effective for years beginning on or after January 1, 2018

IFRS 15 Revenue from contracts with customers – in May 2014, the IASB issued IFRS 15, a new standard which provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 is effective for years beginning on or after January 1, 2017.

The Company has not determined the impact on its consolidated financial statements from the adoption of these future accounting pronouncements.

O. Financial Instruments

Non-derivative financial instruments are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs.

At initial recognition, all financial instruments are classified in one of the following categories depending on the purpose for which the instruments were acquired:

Financial assets at fair value through profit and loss
Financial assets at fair value through profit or loss are financial assets held for trading or is designated as such by management. Such assets are held for trading if it is acquired principally for the purpose of selling in the short-term. These assets are initially recognized, and subsequently carried, at fair value, with changes recognized in the consolidated statement of loss and comprehensive loss. Transaction costs are expensed. Assets in this category include cash and cash equivalents.

Loans and receivables
Loans and receivables are subsequently measured at amortized cost using the effective interest method, less any impairment losses, with interest expense recognized on an effective yield basis. Assets in this category include trade and other receivables and share acquisition loans.

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the trade receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statement of loss and comprehensive loss. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

Other financial liabilities

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

Equity instruments

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

Fair values

The fair values of cash and cash equivalents, trade and other receivables, bank overdraft, bank operating loan, and trade and other payables approximate their carrying values due to the relatively short periods to maturity of these instruments. The fair value of the BDC Financing loans approximate its carrying value as the debt rate floats with prime. The fair value of the share acquisition loans has been determined using the effective interest rate method. The fair value of the secured debenture approximates its carrying value as the interest rate is a market rate for similar instruments.

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

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

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place.

Level 3 – Valuations in this level are those with inputs for the assets or liabilities that are not based on observable market date.

The Company's cash and cash equivalent is measured based on Level 1. There were no transfers between Level 1, 2 and 3 during the year. Trade and other receivables and share acquisition loans are measured based on Level 3 inputs.

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 Company has a loan facility with a Canadian chartered bank which, when utilized by the Company, provides loans that are subject to floating market rates. The Company had a balance outstanding for this loan facility at December 31, 2014 of $1,110,000. Future cash flow requirements could require the Company to utilize its line of credit to finance working capital for periods of time and during these time periods it would be exposed to interest rate risk. In addition, the BDC Financing, which had a balance of $1,215,882 outstanding at December 31, 2014, is subject to floating rates. Based on the floating rate debt outstanding at December 31, 2014 a 1% increase/decrease in interest rates would result in a decrease/increase in the comprehensive income (loss) of approximately $17,500.

Credit Risk

Financial instruments that subject the Company to credit risk consist primarily of cash, trade receivables and the share acquisition loans. The Company manages credit risk using credit approval and monitoring practices. At December 31, 2014, 7 customers accounted for approximately 90% of trade receivables (at December 31, 2013, 7 customers accounted for approximately 92% of trade receivables). (See Note 5 for aging of outstanding trade receivables at December 31, 2014 and 2013). At December 31, 2014 the Company had $50,019 of cash and cash equivalents and $88,004 of fair values share acquisition loans that are outstanding with two officers, and a former officer, of the Company.

Liquidity Risk

Liquidity risk management involves maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit lines. Due to the nature of the business, the Company aims to maintain flexibility in funding by keeping committed credit lines available and limiting the investment of available cash to short term risk free interest bearing deposits. The Company has a Credit Facility with a Canadian chartered bank, which when utilized by the Company provides loans to finance working capital for periods of time. Under the Credit facility, the bank will advance up to $1,000,000 on trade receivables less than ninety days outstanding at the end of each month and 50% of inventories (up to a maximum $250,000). In November 2014 the seasonal increase in the Credit Facility of $500,000, which normally runs from April to October each year, was extended until January 31, 2015. Based on these restrictions the actual Credit Facility availability at December 31, 2014 was $1,500,000 (December 31, 2013 - $971,000) of which $1,110,000 had been drawn down at December 31, 2014 ($435,000 at December 31, 2013). The drawn down Credit Facility was $950,000 and $510,000 at January 31, 2015 and February 28, 2015, respectively.

The decline in commodity prices in the Western Canada oil and gas sector has caused Canadian chartered banks to review their loan exposure in this sector, in particularly within the oil and gas service sector which the Canadian chartered bank may view the Company The current economic situation in Alberta, combined with the Company's reported losses for the past two years and the Company's need to increase its operating financing to support sales growth, raises uncertainty as to whether this situation will affect the Company's current Credit Facility with its bank.

The Company is in discussion with various parties regarding alternative financing to support its increased working capital levels should the Company's existing Credit Facility, together with the seasonal increase, not be renewed. The alternative financing may include factoring, refinancing of assets or a new operating line with a different financial institution or possibly an equity offering later in the year. To date the Company has an offer from a couple of different sources for factoring of its receivables, so no interruption of the Company's ability to finance its operations is anticipated.

The table below, and on the next page, summarizes the maturity profile of the Corporation's financial liabilities at December 31, 2014 and 2013 based on contractual undiscounted payments.

	Less than 1 year	1 to 2 years	2 to 5 years	Total
As at December 31, 2014				
Bank overdraft	$ 194,154	$ -	$ -	$ 194,154
Bank operating loan	1,110,000	-	-	1,110,000
Trade and other payables	1,927,492	-	-	1,927,492
Long-term debt	286,662	286,662	1,642,558	2,215,882
Finance lease obligations	55,542	39,394	47,561	142,497
	$ 3,573,850	$ 326,056	$ 1,690,119	$ 5,590,025

	Less than 1 year	1 to 2 years	2 to 5 years	Total
As at December 31, 2013				
Bank overdraft	**$** 53,109	$ -	$ -	$ 53,109
Bank operating loan	435,000	-	-	435,000
Trade and other payables	466,484	-	-	466,484
Long-term debt	286,662	286,662	387,099	960,423
Finance lease obligations	54,287	55,542	86,931	196,760
	$ 1,295,542	$ 342,204	$ 474,030	$ 2,111,776

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

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

	2014	2013
Cash and cash equivalents	**$ 37,247**	$ 15,704
Trade and other receivables	**$ 138,024**	$ 17,666
Inventory	**$ 1,906**	$ 1,906
Prepaid expenses and deposits	**$ 14,601**	$ 12,063
Trade and other payables	**$ 56,269**	$ 26,362

The Company's primary foreign exchange sensitivity is in relation to movements of the USD against the Canadian dollar. Based on the USD balances at December 31, 2014, a 5% increase/decrease of the USD dollar against the Canadian dollar would result in an increase/decrease in total comprehensive income (loss) of approximately $7,300.

P. Disclosure of Outstanding Share Data

As at December 31, 2014 and March 25, 2014, the following is a description of the outstanding equity securities and convertible securities previously issued by the Company

	Authorized	**Outstanding as at December 31, 2014**	**Outstanding as at March 25, 2015**
Voting or equity securities issued and outstanding	Unlimited Common Shares	34,025,994 Common Shares	34,025,994 Common Shares
Securities convertible or exercisable into voting or equity securities - stock options	Stock options to acquire up to 10% of outstanding Common Shares	Stock options to acquire 3,090,000 Common Shares at an exercise price at $0.145 to $0.24	Stock options to acquire 3,190,000 Common Shares at an exercise price at $0.145 to $0.24

In 2014, there were 2,640,000 stock options granted; 560,000 granted stock options were exercised; and 655,000 expired without being exercised.

At December 31, 2014, 1,160,000 granted options had not vested and the Company had 312,599 shares reserved for the issuance of stock options.

On March 5, 2015, 100,000 stock options were granted with an exercise price of $0.20 to a recently hired engineer. These stock options were for a five year term and vest as to one third on each of the next three anniversary dates of the stock option grant date.

Q. Outlook

For 2015 Management is forecasting continued growth in Canadian infrastructure sales, growth in U.S. infrastructure sales and the continuation of sales growth in the oil and gas sector of Western Canada, even though many oil and gas companies have made significant cuts to their capital budgets. This is because the oil sands projects, that the Company has contracts with, or has been specified into, are expected to continue.

As of this date, the Company has $8.9 million of sales contracts in place for projects scheduled for 2015 and is in discussions, design and or bid process on a significant number of other projects scheduled to be completed in 2015. In 2014, at this same time, the Company only had $2 million of contracts for the year.

In addition, the Company expects that these sales will be spread out over the year, as opposed to being focused in certain quarters and that margins should rebound with increased activity in the oil and gas sector and less introductory pricing in new markets. The 2015 start is a good indication of this, as the Company has already recorded in excess of $2.2 million of sales to date for the first quarter ended March 31, 2015.

CEMATRIX CORPORATION
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Form 51-102F1 - Management's Discussion & Analysis
For the Year Ending December 31, 2014

Appendix A – Forward Looking Statements

The forward-looking statements in the MD&A for the year ending December 31, 2014 are outlined below:

Page 6 – Annual Review and Highlights

The Company continues to focus its effort to gain broad market acceptance for its products for numerous applications in infrastructure markets throughout Canada. Management believes that this market sector offers a real opportunity for continued revenue growth as the Company moves toward a broader market acceptance for a number of its applications, particularly in the Ontario region.

The Company's contracted, and other forecast projects, for 2015, are continuing, as scheduled, as there doesn't appear to be any cancellations for any of the large oil sands projects already underway.

Page 10 – Under Capitalization

The inability to prepare for the forecasted growth increases the risk that the Company will not be able to achieve its growth expectations and/or that the cost to achieve that growth may be higher that currently expected.

Page 10 – Staffing Requirements

However, the Company is currently not in an optimum position to hire, train and retain sufficient operations staff to meet the sales growth expected over the next few years.

Page 29 – Outlook

For 2015 Management is forecasting continued growth in Canadian infrastructure sales, growth in U.S. infrastructure sales and the continuation of sales growth in the oil and gas sector of Western Canada, even though many oil and gas companies have made significant cuts to their capital budgets. This is because the oil sands projects, that the Company has contracts with, or has been specified into, are expected to continue.

In addition, the Company expects that these sales will be spread out over the year, as opposed to being focused in certain quarters and that margins should rebound with increased activity in the oil and gas sector and less introductory pricing in new markets

The foregoing statements contains forward-looking statements which are based on sales forecasts prepared for 2015; sales forecasts include work which is under contract for 2015, 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 2015 sales to materialize, because of project delays or cancelations or because CEMATRIX's cellular concrete is not specified into projects, management's assumptions in applying probabilities to the various projects in the sales forecast are incorrect, and product acceptance in new markets takes longer than anticipated resulting in reduced sales.