CEMATRIX CORPORATION

Management's Discussion and Analysis

For the Year Ended December 31, 2016

Date Completed: March 1, 2017

CEMATRIX CORPORATION
www.cematrix.com

Form 51-102F1 - Management's Discussion & Analysis
For the Year Ended December 31, 2016

The following is the management's discussion and analysis ("MD&A") of CEMATRIX Corporation ("CEMATRIX" or the "Company") for the year ended December 31, 2016. This MD&A should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2016 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, 2015 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"). 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 Consolidated Financial Statements and MD&A for the year ended December 31, 2016. The Board of Directors of the Company reviewed and approved these Consolidated Financial Statements and MD&A on March 1, 2017.

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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 the International Accounting Standards Board.

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

A. Purpose of the Company's MD&A

The purpose of this MD&A is to provide a narrative explanation, through the eyes of management, to assist the reader in understanding the Company's performance for the year ended December 31, 2016, the Company's financial condition as at December 31, 2016 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 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 construction projects 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 stabilized earth ("MSE") panels and retaining wall backfill; grouting; and tunnel backfill. Work in this sector generally requires the prior approval of the Company's various products and applications by local regulatory bodies.

The 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. There is also a growing market for repairs and replacements at existing oil sands and refineries.

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 generally "one-off" type sales, meaning there is little in the way of carry over in sales from year to year with the same customer; except to the extent that the Company has repeat business related to a specific application or location, or a project is sufficiently large in scope, that it continues from one period into the next. The 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.

In 2016, the Company, through its wholly-owned subsidiary CEMATRIX (Canada) Inc. entered into certain agreements with Lafarge Canada Inc. ("Lafarge"), a member of LafargeHolcim, the largest cement company in the world, in regard to the joint marketing of CEMATRIX cellular concrete throughout Canada and the regional development of CEMATRIX cellular concrete applications for the Ready Mix division of Lafarge throughout Canada. Management expects that these agreements will help to expand the market for its products over the coming years.

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 three 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 from 50 to 100 cubic metres per hour of cellular concrete. The fleet is mobile and can be moved to any project in North America.

The value proposition that CEMATRIX offers to customers is as follows:

CEMATRIX cellular concrete saves significant time and money for its customers (the "Value Proposition").

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

Over the 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 all the insulation of oil sand modules etc.). The cost of this investment, in terms of additional staff and equipment, has negatively affected the financial results over the past few years, however, it has helped to put the Company in a better position to achieve sales growth, as it occurs.

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

Annual Review

Financial Results

In 2016 the Company contracted $15.9 million in sales, which was a very strong year.

The problem, which was entirely beyond the control of CEMATRIX, was that $5.8 million of the contracted sales were rescheduled by the Company's customers to 2017 as a results of wet weather and onsite contractor construction issues. In addition, one 2016 contract for $0.5 million was for a 2017 project.

As a result of the shift in $5.8 million of 2016 contracted sales, that were originally scheduled to be done in 2016, to 2017 our sales were reduced to $9.6 million. This was the major contributor to CEMATRIX reporting a loss in 2016. If the sales had gone ahead, as originally scheduled, the results of the Company could have been in line with the 2015 record year.

Up until the late fall, based on information from customers, these projects were to proceed in 2016.

The positive side of the shift in contracted work is that the Company began 2017 with $6.3 million of contracted work that is currently scheduled to be completed over the first half of 2017. Work has commenced on the majority of these delayed projects.

In addition to the negative affect on 2016 Gross Margin from the shift in a significant part of contracted sales to 2017, other contributing factors for the reduction in the Gross Margin on sales to 13.7% from 32%, in 2015 include: the decline in oil and gas sector sales which tend to have a higher Gross Margin percentage than infrastructure sales; lower margins on an oil and gas project due to a switch in production methods from lower cost dry mix to higher cost wet mix production to facilitate safe production of lower daily volumes on the project; an unanticipated charge related to cost adjustments to a project completed in the year; the cost of carrying additional operating staff through the second half of the year in anticipation that contracted projects would proceed as originally scheduled; and higher fixed costs and depreciation

The reduced Gross Margin from lower sales, and other factors discussed above, were partially offset by lower non-cash stock based compensation expense, the elimination of the corporate bonus provision in 2016, and lower financing costs due to the replacement of high cost working capital financing with the new demand operating loan with the Canadian Western Bank ("CWB").

As a result of these factors, the Company reported a loss before income taxes of $1.3 million as compared to income of $1.9 million in 2015.

Key Developments that will Benefit Future Years

The following three developments in 2016 will help to ensure that the Company returns to profitability in 2017, with greater growth expected for the future

1. Growth in Sales Pipeline:

   The Company's Sales Pipeline is now in excess of $100 million for potential projects scheduled to commence in 2017 and beyond. However, as the Company experienced in 2016 and prior years, CEMATRIX has no control over when the actual work is scheduled by its customers. The current Sales Pipeline is before our normal marketing cycle, which will begin in earnest in the winter/spring of 2017.

2. The Joint Marketing Arrangement with Lafarge:

   Of all the positives from 2016, the one that will have a profound effect on CEMATRIX's future and sale growth is our expanded relationship with Lafarge/Holcim ("Lafarge") culminated in the execution of a five year joint marketing agreement for Canada in early July 2016:

   In addition, CEMATRIX and Lafarge, in February 2017, executed additional five year agreements to promote the regional development of CEMATRIX cellular concrete and Ready Mix sales of Lafarge in regions where Lafarge has a physical presence and CEMATRIX does not.

   Lafarge will facilitate this regional program by renting a CEMATRIX wet mix cellular concrete processor and ancillary equipment from CEMATRIX for a particular region; using their sales staff to identify CEMATRIX cellular concrete applications in the particular region; and will either sell the product directly through the Lafarge Ready Mix plant or through CEMATRIX. CEMATRIX would then send operating staff to complete the project from one of its locations. A critical factor to both parties, is that CEMATRIX has already successfully placed cellular concrete in several key projects in the initial region selected, so it is anticipated that the development of the market in this region will take much less time, than when CEMATRIX first introduced its products in Alberta. More importantly for CEMATRIX and Lafarge, is that the success of this venture will lead to the joint development of other regional cellular concrete markets across Canada

3. The Commencement of Two Research Projects Involving Key Players in Industry and Government

a. Beginning in June of 2016, the Company commenced a research and development project, involving the use of CEMATRIX cellular concrete with MSE panels that are widely used for construction projects involving retaining walls and bridge abutments; this is a significant market in Canada and the U.S. Often as part of this process a light weight material is required to be placed behind the panels. CEMATRIX cellular concrete is well suited for these applications and is an area where CEMATRIX has completed a number of significant projects over the past few years.

The project is to develop knowledge and characteristics of CEMATRIX cellular concrete, for use with MSE panels The Company believes that this information will help to facilitate the specification of CEMATRIX cellular concrete for use on MSE panel and other types of applications. A significant part of the testing will involve the determination of pull out strengths for tie back configurations for MSE panels. The focus will be on CEMATRIX's new 400 kg/m3 density material which has higher strength as compared to other density material. The total estimated cost of this program, which is forecasted to be completed by the spring 2017, is approximately $305,000, of which the National Research Council has agreed to fund $125,000 through their Industrial Research Assistance Program.

b. A second research and development program has been initiated with the University of Waterloo's civil engineering department and will involve the University of Waterloo, The Ministry of Transportation of Ontario, CEMATRIX and the Federal Government at a test facility near Waterloo, Ontario. This program will involve pouring CEMATRIX cellular concrete for road bases with pavement structures at different densities to be monitored over three years. The purpose is to develop road bases that will last longer as well as monitoring the effect on utilities buried beneath the road systems. CEMATRIX's cost of the three-year program will be approximately $270,000 spread over three years.

Lafarge will be participating in both programs, as well.

Highlights

- Contracted sales for currently scheduled work for 2017 now stand at $6.9 million;
- The Company had a strong year with $15.9 million of contracted sales in 2016. Unfortunately, work on $5.8 million of these contracted sales was moved to the first part of 2017 and $0.5 million related to a 2017 project. Of note three of the delayed projects with a combined sales value of $4.8 million are already underway as of the date of this report;
- As a result of the delay in 2016 contracted projects to 2017, the Company recorded a 37.6% decline in sales to $9,598,861, down $5,780,926 from 2015; reported a loss to common shareholders of $1,081,592 as compared to income of $1,589,667 in 2015; and negative EBITDA (earnings before interest, taxes, depreciation and non-cash stock based compensation) of $496,975 compared to a positive $2,853,108 in 2015.
- The Company announced that it's wholly owned subsidiary, CEMATRIX (Canada) Inc., entered into a five year joint marketing agreement with Lafarge and has entered into five year agreements with Lafarge to promote the regional development of CEMATRIX cellular concrete markets with the Ready Mix division of Lafarge;
- During the year, the Company`s wholly owned subsidiary, CEMATRIX (Canada) Inc., secured $2,000,000 of working capital financing with the CWB which allowed it to repay more expensive financing and secured $500,000 of working capital and $500,000 of equipment financing from the Business Development Bank of Canada ("BDC"); and
- The Company received notice that Canadian Business and PROFIT had ranked the Company 171st on their 2016 PROFIT 500 listing and that it ranked 10th in the Alberta Venture's Fast Growth 50 List for 2016.

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 and on a selective basis in Quebec, while selectively bidding on projects in the U.S. and northern Canada 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:

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

The joint marketing agreement with Lafarge, completed in 2016, is for the joint development of CEMATRIX cellular concrete markets throughout Canada to increase the awareness of the construction challenges which can be solved by CEMATRIX cellular concrete solutions and thereby grow sales.

The agreements with Lafarge for the regional development of CEMATRIX cellular concrete markets for the Ready Mix division of Lafarge, completed in February 2017, are intended to grow sales at various regions in Canada where CEMATRIX does not have a physical presence. The initial agreement will be for Winnipeg, Manitoba, and other locations will be added at the direction of Lafarge.

The intent of both of these agreements is to increase the sale of cellular concrete by CEMATRIX and the sale of Cement and Ready Mix slurry by Lafarge across Canada.

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

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. The price for oil have been negatively affected by the impact of excess supply in global markets. Oil prices for Western Canada also continued to be negatively affected due to reduced take away capacity on connecting pipelines. The individual company`s views on these factors affects the timing of projects which could be specified to use various quantities of the Company's products.

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 and the U.S. federal, provincial/state and municipal governments continue to allocate significant funds to infrastructure construction, however, the benefit, if any, to CEMATRIX, will be dependent on the type and location of projects to which the infrastructure funds will be allocated.

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, in Canada CEMATRIX has obtained, or is in the process of obtaining, the various approvals in all provinces and territories that it currently operates in.

In the U.S. cellular concrete is already an approved product for various infrastructure applications in most regions of the U.S.

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 or 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 U.S. where there are a number of established cellular concrete producers.

The strengthened relationship with Lafarge will benefit the credibility of CEMATRIX as a sole source supplier.

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. In 2016 the Company began a three year third party testing program to validate certain properties of the Company's cellular concrete products. This testing will assist in the marketing of the Company's products in the future, particularly in the infrastructure market where this information will be useful for engineers considering the use of CEMATRIX's products for various applications. The total program is expected to cost approximately $575,000, before any government grants.

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 any significant increase in sales. To date, cash from operations hasn't provided the necessary funds to support the hiring and training of additional operations and technical staff, even though the Company has been able to expand its production capacity from an equipment perspective and increase its technical sales capability.

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 than 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. The Company is currently in a better, but not optimum position, to hire, train and retain sufficient operations staff to meet the sales growth expected over the next few years. Accordingly, it plans to hire and train staff closer to when projects are scheduled to commence. The challenge, as experienced in 2016, is that CEMATRIX must hire and train new staff based on the best available information available at the time the hiring is made so when projects get delayed the additional cost of carrying the new staff affects the Company's Gross Margin.

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 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 2016, particularly with over $5.8 million of contracted sales being delayed until the first part of 2017. 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 has more than doubling the capacity at its plant in Western Canada, so cement supply should not be an issue in Western Canada in the near future 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.

The supply of cement will be less of an issue with the new agreements with Lafarge.

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 Gross 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 2017. 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 a couple of smaller suppliers in Ontario and British Columbia. There are many more suppliers in the U.S. and other countries where the cellular concrete markets are more developed. Accordingly the possibility of future competition exists. Competition could result in lost sales or reduced Gross Margin. 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 design, product and equipment development and by requiring highly trained quality control staff to be on hand for all projects to check and monitor all input and end product materials.

F. Operations and Overall Performance

Results of Operations

Comparison of the Three Months Ended December 31, 2016 and December 31, 2015

	Three Months Ended December 31					
		2016		2015		Change
Revenue	$	**1,167,827**	$	6,304,032	$	(5,136,205)
Gross margin	$	**(55,409)**	$	1,992,691	$	(2,048,100)
Operating expenses						
Operating expenses		**(511,633)**		(607,595)		95,962
Corporate bonus provision		**-**		(275,000)		275,000
		(511,633)		(882,595)		370,962
Operating income (loss)		**(567,042)**		1,110,096		(1,677,138)
Non-cash stock based compensation		**(32,667)**		(33,389)		722
Finance costs		**(41,036)**		(129,844)		88,808
Other income (expenses)		**(70,100)**		1,453		(71,553)
Income (loss) before income taxes		**(710,845)**		948,316		(1,659,161)
Recovery (provision) of deferred taxes		**159,274**		(55,859)		215,133
Net income (loss) attributable to the common shareholders		**(551,571)**		892,457		(1,444,028)
Unrealized foreign exchange gain on translation of foreign subsidiary		**17,166**		13,024		4,142
Total comprehensive income (loss)	$	**(534,405)**	$	905,481	**$**	(1,439,886)
Diluted income (loss) per common share	$	**(0.016)**	$	0.026	**$**	(0.042)

	Three Months Ended December 31					
		2016		2015		Change
Revenue						
Infrastructure						
Western Canada	**$**	**127,349**	$	205,654	$	(78,305)
Eastern Canada		**447,767**		473,216		(25,449)
United States		**94,304**		508,677		(414,373)
		669,420		1,187,547		(518,127)
Oil and Gas		**498,407**		5,116,485		(4,618,078)
	$	**1,167,827**	$	6,304,032	$	(5,136,205)

Revenue decreased by 81.5% or $5,136,205. Infrastructure sales were down $518,127, or 43.6%, with most of the decrease occurring in the U.S. where the Company benefitted from larger projects in the same period of 2015. In addition, $5,748,900 of originally scheduled fourth quarter 2016 contracted Canadian infrastructure projects were moved to the first part of 2017. Oil and gas sector sales were down $4,618,078, or 90.3%. This decrease is principally related to lower volumes, as compared to the same period in 2015. In 2015 volumes were generated from one large oil and gas project that commenced in January 2015 and was completed in early December 2016, and another large project that commenced in October 2015 and was completed in March 2016.

The Gross Margin on sales was a negative $55,409, a decrease of $2,048,100. The Gross Margin percentage was a negative 4.7% compared to a positive 31.6% in 2015. The decrease in the Gross Margin dollars and the Gross Margin Percentage for the fourth quarter of 2016 was mainly due to the following items:

- lower sales combined with a greater amount of infrastructure work, as a percentage of total sales, as these sales tend to have lower margins as compared to oil and gas work;

- lower margins on an oil and gas project where the Company switched production methods from lower cost dry mix to higher cost wet mix production to facilitate safe production of lower daily volumes in confined areas; and

- an increase in depreciation as a result of the new dry mix unit going into service in the fall of 2015 and the new wet mix unit going into service in October 2016.

Partially offset by:

- lower direct labour costs; in the fourth quarter of 2015 the Company was active on two large projects in the oil and gas sector;

- lower mobilization costs; in 2015 the Company incurred significant mobilization costs on the two large projects in the oil and gas sector;

- lower fixed costs due to the use of an hourly contractor as operations manager on one of the major projects in the oil and gas sector in 2015.

Operating expenses, before the corporate bonus provision of $nil for 2016 ($275,000 for 2015), were lower by $95,962 or 15.8% due to the aggregate of the following:

- Sales commission to staff was down $36,600 due to the decrease in sales discussed previously;

- Insurance costs were down $21,100 due to a requirement for project specific insurance on a U.S, project in 2015;

- The costs to put the receivable factoring agreement in place was $40,300 in 2015 and was amortized over the full year; the expense was $16,300 in the three months ended December 31, 2015;

- In 2015 the Company paid directors fees of $11,250; this was the first such payment in over eight years; there were no directors fees paid in 2016;

- Other costs were down by $10,712.

Non-cash stock based compensation was down by $722 or 2.2%, as a result of the timing of vesting of issued stock options. Under IFRS rules, the associated non-cash stock based compensation related to stock options has to be expensed based on the vesting privileges of the particular option grants.

Finance costs were down $88,808, or 68.4%. The decrease was principally due to lower interest on the existing BDC loans, as the loan balances were reduced through scheduled repayments, and lower interest on the mezzanine loan and factoring agreement as this high cost working capital financing was replaced with the new demand operating loan with the CWB in April 2016.

Other income was lower by $71,553 due to a loss on the sales/retirement of property and equipment of $38,371 record in 2016, with no comparable number for 2015; in 2016 foreign exchange losses were $29,043 as compared to foreign exchange gains of $1,453 in 2015; and other expenses were $2,686 in 2016, with no comparable expense in 2015.

The change in deferred income taxes was a positive $215,133. In 2016 a deferred income tax recovery of $159,274 was recorded as compared to a deferred income tax provision of $55,859 in 2015. The 2015 provision also included a deferred tax adjustment to reflect the tax effect of additional tax pools. The change is due to weaker results of the Canadian operations in comparison to the same period in 2015.

Unrealized foreign exchange loss on translation of foreign subsidiary was higher by $4,142. The variability period over period is due to changes in the foreign exchange rate of the U.S. dollar vs. the Canadian dollar, which has strengthened in 2016, and changes in the levels of the assets, liabilities, revenues and expenses of the U.S. subsidiary between the two periods.

The total comprehensive income (loss) was lower by $1,439,896. This was principally due to lower lower sales and the resulting lower Gross Margin as partially offset by lower operating expenses and finance costs.

Comparison of the year ended December 31, 2016 and December 31, 2015

	Year Ended December 31		
	2016	2015	Change
Revenue	**$ 9,598,861**	$ 15,379,787	$ (5,780,926)
Gross margin	**$ 1,316,376**	$ 4,927,418	$ (3,611,042)
Operating expenses			
Operating expenses	**(2,283,876)**	(2,216,990)	(66,886)
Corporate bonus provision	**-**	(275,000)	275,000
	(2,283,876)	(2,491,990)	208,114
Operating income (loss)	**(967,500)**	2,435,428	(3,402,928)
Non-cash stock based compensation	**(142,256)**	(224,049)	81,793
Finance costs	**(199,936)**	(400,020)	200,084
Other income (expenses)	**(18,617)**	45,820	(64,437)
Income (loss) before income taxes	**(1,328,309)**	1,857,179	(3,185,488)
Recovery (provision) of deferred taxes	**246,860**	(267,512)	514,372
Net income (loss) attributable to the common shareholders	**(1,081,449)**	1,589,667	(2,671,116)
Unrealized foreign exchange loss on translation of foreign subsidiary	**(16,143)**	(23,272)	7,129
Total comprehensive income (loss)	**$ (1,097,592)**	$ 1,566,395	**$** (2,663,987)
Diluted income (loss) per common share	**$ (0.031)**	$ 0.046	$ (0.077)

	Year Ended December 31		
	2016	2015	Change
Revenue			
Infrastructure			
Western Canada	**$ 1,239,752**	$ 1,553,503	$ (313,751)
Eastern Canada	**3,605,763**	2,158,869	1,446,894
United States	**94,304**	1,901,600	(1,807,296)
	4,939,819	5,613,972	(674,153)
Oil and Gas	**4,659,042**	9,765,815	(5,106,773)
	$ 9,598,861	$ 15,379,787	$ (5,780,926)

Revenue decreased by 37.6% or $5,780,926. Infrastructure sales were down $674,153, or 12%, due to the delay in several contracted projects. Most of the decrease occurred in the U.S. U.S. sales were down largely because of the lack of activity in the U.S. during an election year. The increase in Eastern Canada infrastructure sales includes the completion of the Company's first project in Quebec. Oil & gas sector sales were down $5,106,773, or 52.3%, as volumes were lower at two major projects in this sector. These projects were started in 2015 and completed in 2016. As expected there were no new significant 2016 projects in the sector as oil prices remained below $50 U.S. per barrel for most of the year.

The Gross Margin on sales was lower by $3,611,042 or 73.3%. The Gross Margin Percentage achieved of 13.7% compared to 32% in 2015. The decrease in the Gross Margin dollars and the Gross Margin percentage was mainly due to the following items:

- lower sales combined with a greater amount of infrastructure work, as a percentage of total sales, as these sales tend to have lower margins as compared to oil and gas work;

- an unanticipated charge of $140,000 related to cost adjustments to a project completed in June 2016;

- lower margins on an oil and gas project where the Company switched production methods from lower cost dry mix to higher cost wet mix production to facilitate safe production of lower daily volumes in confined areas;

- an increase in fixed overhead due to the end of a sublease agreement for a portion of the Calgary shop space that was in place to September 2015; and

- an increase in depreciation as a result of the new dry mix unit going into service in the fall of 2015 and the new wet mix unit going into service in October 2016.

Partially offset by:

- labour costs were down marginally from 2015; in 2015 the Company used a number of temporary staff and incurred high overtime costs on the two significant projects in the oil and gas sector; in 2016 the Company hired additional operating staff in preparation for the expected sales increase for the last part of 2016 which did not happen; and

- a decrease in variable overhead costs mainly due to higher mobilization costs incurred in 2015 on the two significant project in the oil and gas sector; partially offset by higher equipment repair and maintenance costs in 2016 due to the high utilization rate for equipment through the last part of 2015 and the first part of 2016 as compared to the same period in the prior year.

Operating expenses, before the corporate bonus provision of $nil for 2016 ($275,000 for 2015), were higher by $66,886 or 3% due to the aggregate of the following:

- Sales commissions to sales staff were down $42,800 due to the decrease in sales discussed previously;

- Insurance costs were down $6,100 due to higher premiums on the policy renewal because of increased sales levels combined with a requirement for project specific insurance ion a U.S, project;

- The costs to put the receivable factoring agreement in place in 2015 was $40,300;

- In 2015 the Company paid directors fees of $11,250; this was the first such payment in over eight years; there were no fees paid in 2015;

- Costs incurred in 2016 to put in place the new demand operating loan with the CWB bank and the new BDC working capital loan were $33,300; there was no comparable costs in 2015;

- Business development and investor relations costs were up by $49,800 as the Company was active in 2016 in developing new markets for its services and in developing growing investor interest;

- Recruitment costs were up by $13,600 to hire additional operating staff;

- Computing costs were up $10,000 related to the implementation of a new sales and project management system in 2016 combined with higher computing costs related to the movement to offsite server storage in July 2015; and

- Other costs were up by $60,636 due to general increases.

Non-cash stock based compensation was down by $81,793, or 36.5%, as a result of the timing of vesting of issued stock options. Under IFRS rules, the associated non-cash stock based compensation related to stock options has to be expensed based on the vesting privileges of the particular option grants.

Finance costs were down $200,084, or 50%. The decrease was principally due to lower interest on the existing BDC loans, as the loan balances were reduced through scheduled repayments, and lower interest on the mezzanine loan and factoring agreement as this high cost working capital financing was replaced with the new demand operating loan with the CWB in April 2016. The effect of the replacement of the high cost mezzanine loan and factoring agreement is now being realized.

Other income was down $64,437 due to a loss on the sale/retirement of property and equipment of $17,278 recorded in 2016, with no comparable number for 2015; in 2016 foreign exchange gains were $1,050 as compared to $45,820 in 2015 – the gains in 2015 came mainly from gains on collection of $US trade receivables of which there were none in 2015; and other expenses were $2,389 in 2016, with no comparable expense in 2015.

The change in deferred income taxes was a positive $514,372. In 2016 a deferred income tax recovery of $246,860 was recorded as compared to a deferred income tax provision of $267,512. The 2015 provision also included a deferred tax adjustment to reflect the tax effect of additional tax pools. The change is due to weaker results of the Canadian operations in comparison to the same period in 2015.

Unrealized foreign exchange loss on translation of foreign subsidiary was lower by $7,129. The variability period over period is due to changes in the foreign exchange rate of the U.S. dollar vs. the Canadian dollar, which has strengthened in 2016, and changes in the levels of the assets, liabilities, revenues and expenses of the U.S. subsidiary between the two periods.

The total comprehensive income (loss) was lower by $2,633,987. This was principally due to lower sales and the related Gross Margin on sales as partially offset by lower operating expenses, non-cash stock based compensation and 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, 2016. 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		Total Assets	Total Non Current Liabilities
			Basic	Diluted		
	$	$	$	$	$	$
December 31, 2016	**9,598,861**	**(1,097,592)**	**(0.031)**	**(0.031)**	**7,575,832**	**2,123,907**
December 31, 2015	15,379,787	1,566,395	0.047	0.046	11,260,623	1,877,457
December 31, 2014	8,712,193	(585,809)	(0.017)	(0.017)	9,259,642	2,016,175
December 31, 2013	8,072,148	(208,591)	(0.007)	(0.007)	5,845,487	816,234
December 31, 2012	8,549,150	857,288	0.026	0.026	6,022,109	491,620

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 the first quarter of 2015 and 2016 the Company benefitted from winter projects carried over from 2014 and 2015. The Company continues pursuing other markets where seasonality is less of an issue. This seasonality is reflected in the quarterly results summarized on the next page:

			Income (Loss)	
Quarters Ended	**Total Revenues**	**Total Comprehensive Income (Loss)**	**Per Share Basic (1)**	**Per Share Diluted (1)**
	$	**$**	**$**	**$**
2016 Year				
March 31	**3,170,689**	**(22,487)**	**-**	**-**
June 30	**2,755,072**	**(148,119)**	**(0.004)**	**(0.004)**
September 30	**2,505,273**	**(392,581)**	**(0.011)**	**(0.011)**
December 31	**1,167,827**	**(534,405)**	**(0.016)**	**(0.015)**
Total for year	**9,598,861**	**(1,097,592)**	**(0.031)**	**(0.031)**
2015 Year				
March 31	2,819,022	(2,421)	-	-
June 30	2,164,286	(90,978)	(0.002)	(0.002)
September 30	4,092,447	754,313	0.022	0.021
December 31	6,304,032	905,481	0.026	0.026
Total for year	15,379,787	1,566,395	0.047	0.046

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 2016	December 31 2015	**Change**
Total current assets	**$ 2,865,927**	$ 6,784,310	$ (3,918,383)
Total non current assets	**4,709,905**	4,476,313	233,592
Total Assets	**$ 7,575,832**	$ 11,260,623	$ (3,684,791)
Current liabilities	**$ 879,700**	$ 3,900,605	$ (3,020,905)
Non current liabilities	**2,123,907**	1,877,457	246,450
Total liabilities	**$ 3,003,607**	$ 5,778,062	$ (2,774,455)
Shareholders' equity	**$ 4,572,225**	$ 5,482,561	$ (910,336)

Total current assets decreased by $3,918,383. This decrease in aggregate is summarized on the next page:

- Cash and cash equivalents were down $1,366,451 (See the discussion in Section F - Consolidated Statement of Cash Flows);

- Term deposits were up by $10,000; the term deposit is required as security for the Company's corporate credit cards, in 2016 additional funds were put into the term deposit to secure credit cards issued to new staff;

- Trade and other receivables were down by $2,489,090 as a result of the lower sales in the fourth quarter of 2016 in comparison to the fourth quarter of 2015, combined with timing differences in the collection of trade receivables;

- Inventory was down $134,533 due to the normal usage in the production process and the sale of foaming agent to a contractor for an international mining project as partially offset by foaming agent purchases to bring inventory back to a level to support sales;

- Prepaids and deposits were up $63,267; mainly due to timing differences on certain items in 2016 as compared to the 2015 year end balances; and

- Current portion of share acquisition loans was down $1,576 due to the repayment of $22,625 as offset by the accretion of the fair value adjustment of $12,648 and the reclassification from the long term portion of $8,401.

Total non current assets increased by $233,592. This decrease in aggregate is summarized below:

- The long term portion of the share acquisition loans was down $8,401 due to the reclassification to current portion;

- Property and equipment was down $76,763 - additions to property and equipment of $472,548, including $130,274 through vehicle finance leases, mainly relates to the completion of a new wet mix unit in 2016; this was partially offset by depreciation expense of $489,142 and the removal of the book value related to the 2016 sale and retirement of plant and equipment of $60,169;

- Intangibles increased by $71,896 (including $23,000 of capitalized internal labour) related to testing costs incurred to validate certain properties of the Company's cellular concrete products which will assist in the marketing of these products in the future, particularly in the infrastructure market; other 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; and

- The deferred tax asset increased by $246,860 as a result of recording a deferred tax recovery on Canadian losses during the year ended December 31, 2016.

Total current liabilities decreased by $3,020,905. This decrease in aggregate is summarized below:

- Bank overdraft increased by $33,201;

- Trade and other payables were down $1,619,257 principally due to the application of collections of trade receivables to pay down trade payables and reduced business activity in the fourth quarter of 2016 as compared to the same period in 2015;

- Factoring liability was down $703,462 due to the collections of related factored trade receivables; the balance at December 31, 2015 represents the cash received on the sale of trade receivables under the receivable purchase agreement put in place in 2015, that had not yet been collected from the customer;

- Mezzanine loan was down $750,000 as the Company used cash collected during the first three months of 2016 to make a $250,000 payment against the loan and used cash from the new demand operating loan, which was put in place in April, to repay the balance of $500,000;

- Current portion of long term debt was down $2,200 due to scheduled repayments on the BDC loans of $286,662 as partially offset by the reclassification from the long term portion $284,462; and

- Current portion of finance lease obligations was up $20,813 due to the increase in the reclassification from the long term portion of $99,362, due to new finance leases entered into in 2016, as partially offset by scheduled repayments of $78,549.

Total non current liabilities decreased by $246,450. This increase in aggregate is summarized below:

- Long term debt was up $215,538 due to a new BDC working capital loan of $500,000 in 2016 as partially offset by the reclassification to current of $284,462 to current portion as at December 31, 2016 (see comments above); and

- Finance lease obligations were up $30,912 due to $130,274 of new vehicle leases as partially offset by a reclassification of $99,362 to current portion as at December 31, 2016 (see comment above).

Shareholders' Equity decreased by $910,336. This decrease in aggregate is summarized below:

- Share capital increased by $61,000 consisting of proceeds on the issue of shares of $45,000 on the exercise of share options granted to The Howard Group, the Company's investor relations firm; combined with a reclassification of non-cash stock based compensation of $16,000, related to the options exercised, that had previously been recorded in contributed surplus;

- Contributed surplus increased by $110,460 due to the non-cash stock based compensation of $142,256 as partially offset by the reclassification of $16,000 to share capital and $15,796 to deficit, in regard to non-cash stock based compensation previously recorded in contributed surplus, for options exercised and options that expired or were forfeited without being exercised;

- Accumulated other comprehensive loss increased by $16,143 due to an unrealized foreign exchange loss on translation of the Company's U.S. subsidiary; and

- The Deficit increased by $1,065,653 due to the loss to common shareholders in the period of $1,081,449 as offset by the reclassification of $15,796 from contributed surplus (see above under contributed surplus).

See the Consolidated Statements of Shareholders' Equity included in the Interim Consolidated Financial Statements at September 30, 2016.

I. Consolidated Statements of Cash Flows

Comparison of the Three Months ended December 31, 2016 and December 31, 2015

The cash position of the Company at December 31, 2016 was $51,133 (consisting of cash and cash equivalents of $84,334 and bank overdraft of $33,201) compared to $1,450,785 at December 31, 2015 (consisting of cash and cash equivalents in the bank).

The change in cash in the fourth quarter of 2016 was a decrease of $440,544, as compared to an increase of $705,179 in the same period of 2015. This change is outlined in the table on the next page:

	Three Months Ended December 31		
	2016	2015	Change
Cash generated from (used in) operating activities			
Before non-cash working capital adjustment	**$ (513,364)**	$ 1,100,096	$ (1,613,460)
Net change in non-cash working capital items	**222,194**	(663,268)	885,462
	(291,170)	436,828	(727,998)
Cash used in investing activities	**(36,174)**	(132,194)	96,020
Cash generated from (used in) financing activities	**(130,366)**	387,521	(517,887)
Foreign exchange effect on cash	**17,166**	13,024	4,142
Increase (decrease) in cash	**(440,544)**	705,179	(1,145,723)
Cash, at beginning of period	**491,677**	745,606	(253,929)
Cash, at end of period	$ **51,133**	$ 1,450,785	$ (1,399,652)

Cash			
Cash and cash equivalents	**$ 84,334**	$ 1,450,785	$ (1,366,451)
Bank overdraft	**(33,201)**	-	(33,201)
	$ 51,133	$ 1,450,785	$ (1,399,652)

- Cash generated from (used in) operating activities decreased by $727,998.

    - Cash flow, before non-cash working capital adjustments, decreased by $1,613,460. The decrease was mainly due to the loss reported in 2016 which resulted in a decline in income before taxes of $1,659,161; this decline was partially offset by an increase of $45,701 in the positive adjustments for non-cash items in the reported earnings in 2016 compared to the same period in 2015; this increase was mainly due to higher depreciation due to a new dry mix unit going into service in the fall of 2015 and a new wet mix unit going into service in October 2016 and the loss incurred in 2016 on the sale and retirement of idle equipment and vehicles.

    - The net change in non-cash working capital items was a positive increase of $885,462. This is primarily due to the timing of the collection of the related trade receivables between the two periods.

- Cash used in investing activities decreased by $96,020.

    - Plant and equipment additions were down $130,961; in the same period of 2015 a new dry mix unit, which went into service in the fall of 2015, was being built. In 2016 a new wet mix unit was completed;

    - In 2016 spending related to product testing was $56,481 (including capitalization of internal labour of $23,000) incurred to validate certain properties of the Company's cellular concrete products; these test results will assist in the marketing of these products in the future, particularly in the infrastructure market; and

    - In 2016 proceeds of $21,540 was received on the sale of equipment; there was no comparable amount in 2015

- Cash from (used in) financing activities changed by $517,887.

    - In 2016 the Company used $130,366 in financing activities; a new $500,000 working capital loan with the BDC and other realized working capital was used to pay down the bank loan by $460,064; and scheduled repayments of $143,331; and $26,971, respectively, on BDC Financing and finance lease obligations were made;

- In 2015 the Company generated $387,521 from financing activities; a receivable purchase agreement provided $549,462 and made scheduled repayments of $143,331 and $18,610, respectively on the BDC Financing and finance lease obligations.

Comparison of the Year Ended December 31, 2016 and December31, 2015

The cash position of the Company at December 31, 2016 was $51,133 (consisting of cash and cash equivalents of $84,334 and bank overdraft of $33,201) compared to $1,450,785 at December 31, 2015 (consisting of cash and cash equivalents in the bank).

The change in cash in the year ended December 31, 2016 was a decrease of $1,399,652 as compared to an increase of $1,594,920 in the same period of 2015. This change is outlined in the table below:

	Year Ended December 31		
	2016	2015	Change
Cash generated from (used in) operating activities			
Before non-cash working capital adjustment	**$ (692,281)**	$ 2,451,220	$ (3,143,501)
Net change in non-cash working capital items	**941,099**	(207,545)	1,148,644
	248,818	2,243,675	(1,994,857)
Cash used in investing activities	**(358,654)**	(739,062)	380,408
Cash generated from (used in) financing activities	**(1,273,673)**	113,579	(1,387,252)
Foreign exchange effect on cash	**(16,143)**	(23,272)	7,129
Increase (decrease) in cash	**(1,399,652)**	1,594,920	(2,994,572)
Cash (cash deficiency), at beginning of year	**1,450,785**	(144,135)	1,594,920
Cash, at end of year	**$ 51,133**	$ 1,450,785	$ (1,399,652)
Cash			
Cash and cash equivalents	**$ 84,334**	$ 1,450,785	$ (1,366,451)
Bank overdraft	**(33,201)**	-	(33,201)
	$ 51,133	$ 1,450,785	$ (1,399,652)

- Cash generated from (used in) operating activities decreased by $1,994,857.

- Cash flow, before non-cash working capital adjustments, decreased by $3,143,501. The decrease was mainly due to the loss reported in 2016 which resulted in a decline in income before deferred taxes of $3,185,488; this decline was partially offset by an increase of $41,987 in the positive adjustments for non-cash items in the reported earnings in 2016 compared to the same period in 2015; this increase was mainly due higher depreciation due to a new dry mix unit going into service in the fall of 2015 and a new wet mix unit going into service in October 2016.

- The net change in non-cash working capital items was a positive increase of $1,148,644. This is primarily due to the timing of the collection of the related trade receivables between the two periods.

- Cash used in investing activities decreased by $380,408.

- Plant and equipment additions were down $349,413; in 2015 a new dry mix unit, which went into service in the fall of 2015, was being built and in 2016 a new wet mix unit was completed;

- In 2016 spending related to third party testing of $71,896 (including capitalized internal labour of $23,000) was incurred to validate certain properties of the Company's cellular concrete products; these test results will assist in the marketing of these products in the future, particularly in the infrastructure market.

- The cash invested in the term deposit was lower by $60,000; the term deposit is required as security for the Company's corporate credit cards, in 2015 $70,000 was put into the term deposit and an additional $10,000 was added in 2016 to secure additional credit cards issued to new staff; and

- In 2016 proceeds of $42,891 was received on the sale of idle equipment and vehicles; there was no comparable amount in 2015

- Cash used in financing activities increased by $1,387,252.

- In 2016 the Company used $1,273,673 in financing activities; cash collected on trade receivables that had been factored at December 31, 2015 was used to repay the factoring liability of $703,462; the $750,000 mezzanine loan was repaid and scheduled repayments of $286,662 and $78,549, respectively, on BDC Financing and finance lease obligations were made; a new loan with the BDC provided $500,000 for working capital financing and the issue of common shares for $45,000 on the exercise of stock options by The Howard Group, the Company's investor relations firm.

- In 2015 the Company generated $113,579 in financing activities; a Mezzanine loan was issued for $750,000, with a portion of these proceeds, together with cash generated from operations the Company's repaid its bank operating loan by $1,110,000; signed a receivable purchase agreement of which $703,462 had been realized; made a drawdown $93,936 of the BDC Capital Financing to fund capital spending; issued $22,500 of common shares on the exercise of options and made scheduled repayments of $286,662 and $59,657, respectively on the BDC Financing and finance lease obligations.

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 a facility to finance working capital and accessing capital debt facilities through loans or lease financing.

In order to improve the liquidity and to reduce finance costs, the Company, through its wholly owned subsidiary, CEMATRIX (Canada) Inc., completed the transfer of its day to day banking to the CWB in April 2016, pursuant to an agreement for a $2,000,000 demand operating loan. The demand operating loan bears interest at an amount equal to the greater of 4.7% or 2% above the CWB prime lending rate, as may occur from time to time. The demand operating loan was used to repay the balance of the outstanding mezzanine loan of $500,000, at that time, which had an interest rate of 16.5% and will be used to finance day-to-day operations of CEMATRIX (Canada) Inc. (See note 10 to the Consolidated Financial Statements)

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

- Cash flow coverage ratio of not less than 1.25, tested not less than annually. This is a ratio of EBITDA to all interest (paid or accrued) plus the actual principal payment obligations for the trailing fiscal year on all indebtedness for borrowed money and finance leases;

- Tangible net worth of not less than $4,000,000, tested no less than monthly. Tangible net worth is defined as the aggregate of share capital and retained earnings (shareholders' equity) less goodwill or any assets determined by CWB to be intangibles without value;

- Debt to tangible net worth ratio not greater than 1.75, tested no less than monthly. This is the ratio of indebtedness for borrowed money and finance leases divided by the net tangible worth (defined above); and

- Current ratio not less than 1.25, tested no less than monthly. This is the ratio of current assets, excluding amounts due from related parties, to current liabilities.

At December 31, 2016, the Company did not meet the cash flow coverage ratio covenant test. The CWB has waived this covenant test for the year ended December 31, 2016.

CEMATRIX (Canada) Inc. entered into an agreement with the BDC to provide the Company with $500,000 of additional working capital financing. (See note 14 to the Consolidated Financial Statements)

CEMATRIX (Canada) Inc. entered into an agreement with the BDC which will provide the Company with $500,000 of equipment financing. This will be used, as required, to fund the construction of additional production units. (See note 14 to the Consolidated Financial Statements)

In addition, CEMATRIX (Canada) Inc. negotiated a further one year extension of the principal repayment on the Secured Debenture to February 2019.

At December 31, 2016, the Company had Net Working Capital of $2,199,147, down from $3,140,246 in 2015, reflecting the decline in activity in the fourth quarter of 2016 as compared to 2015.

For the year ended December 31, 2016, the Company reported a loss of $1,186,053, before taxes and non-cash stock based compensation, and negative cash from operations of $692,281, before the non-cash working capital adjustment, and negative EBITDA of $496,975.

The Company introduced cash flow measures to reduce cash flow requirements in 2017. The executive management have taken a 20% reduction in base salary, and all other salaried staff a 10% reduction, until the Company returns to profitability; the Company has negotiated a 10% reduction in the rental cost of its Calgary facility and cost constraints have been placed on all discretionary spending.

As of this date the Company has signed contracts on hand for $6.9 million for work that is scheduled for the first part of 2017 and has a number of contracts in process.

The realization of the net working capital as at December 31, 2016, the benefit from cost reduction initiatives to reduce cash flow requirements, the availability of the CWB demand operating loan and the new BDC working capital and equipment loans and the successful completion of sales contracts that are in place provide the necessary liquidity to carry the Company's operations through the first part of 2017. Ongoing liquidity beyond this, is dependent on the Company achieving additional sales and profitable results.

Capital resources

Capital additions to build new productive capacity in the current year has come from the operating funds. There are no significant capital expenditures planned for 2017. A new wet unit was completed in 2016 and went into service in October 2016. The Company may need to add additional equipment to replace existing equipment or to build additional production units for geographical allocation.

Building additional productive capacity in future years 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 or that the Company can generate sufficient operating cash flows to fund future equipment additions.

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 26 - Capital management to the Consolidated Financial Statements, was $7,057,654 at December 31, 2016 as compared to $7,702,927 at December 31, 2015 (see Section E. Consolidated Statements of Financial Position for details).

Commitments

The table below is a summary of the Company's lease and debt obligations and commitments for the next five years from December 31, 2016.

Debt Category	2017	2018	2019	2020	2021
	$	$	$	$	$
Finance lease obligations (1)	91,914	56,157	120,196	5,386	1,815
BDC financing (2)	284,462	284,142	284,142	217,188	83,280
Secured Debenture (3)	-	1,000,000	-	-	-
Operating leases (4)	305,169	277,168	277,168	-	-

(1) Includes principal and interest.
(2) Based on BDC Financing loans as of December 31, 2016.
(3) Principal repayment extended to February 2019 (see note 29 to the Consolidated Financial Statements)
(4) The Company's current lease for its Calgary facilities expires December 31, 2019.

K. Off Balance Sheet Arrangements

There were no off balance sheet arrangements at December 31, 2016 or 2015.

L. Transactions with Related Parties

During the year ending December 31, 2016, the Company incurred legal fees from a firm which employs one of the directors of the Company in the amount of $44,071 ($17,074 for the year ending December 31, 2015) of which $nil is in trade and other payables as of December 31, 2016 (2015 - $nil).

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:

	2016	2015
Short term employment benefits	**$ 445,260**	$ 624,650
Non-cash stock based compensation	**39,190**	121,155
	$ 484,450	$ 745,805

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 ("FVLCD") and its value in use ("VIU"). The fair value less costs of disposal 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 to the Consolidated Financial Statements.

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 five year discounted future cash flow model plus a terminal value. There is a significant amount of uncertainty with respect to estimating the 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 Margin, terminal value and discount rate.

The key assumptions used in the calculation of recoverable amounts are Gross Margin and discount rates:

	2016	2015
Gross Margin	25%	27%
Pre-tax discount rate	18%	18%

Near term (1 year) sales growth assumptions are based on contracted projects (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 the Gross Margin, consideration is given to historical Gross Margins in the end markets where prospective work opportunities are most significant and changes in the Company's business. A 2% change in Gross Margin in isolation would not result in an impairment charge.

The terminal value was calculated using a discount rate of 18% and steady annual growth of 2.0% in 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, 2016.

(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, forfeiture rate 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.

(d) *Useful life of property and equipment*
Depreciation and amortization are calculated using a systematic and rational basis, which are based upon an estimate of each assets useful life and residual value. The estimated useful life and residual value chosen are the Company's best estimate of such and are based on industry norms, historical experience, market conditions and other estimates that consider the period and distribution of future cash inflows.

N. Changes in Accounting Policies including Initial Adoption.

New accounting policies

During 2016 the Company adopted new IFRS standards and amendments in accordance with the transitional provisions of each standard as outlined below:

IAS 1 Presentation of Financial Statements - IAS 1, Presentation of Financial Statements ("IAS 1"), has been amended to clarify the guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendment to IAS 1 is effective for annual periods beginning on or after January 1, 2016

The adoption of this standard did not have any significant 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 the IFRIC that are mandatory for accounting periods beginning on or after January 1, 2017 or later periods. The standards impacted that are applicable to the Company are as follows:

IAS 7 Statement of Cash Flows – In January 2016, the ISAB published amendments to IAS 7. The adjustments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. This pronouncement is effective for annual periods beginning on or after January 1, 2017.

IFRS 9 Financial Instruments – On July 24, 2014, the IASB issued the final version of IFRS 9, "Financial Instruments" ("IFRS 9") to replace IAS 39, "Financial Instruments: Recognition and Measurement"("IAS 39"). IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements; however, where the fair value option is applied to financial liabilities, the change in fair value resulting from an entity's own credit risk is recorded in OCI rather than net earnings, unless this creates an accounting mismatch. In addition, a new expected credit loss model for calculating impairment on financial assets replaces the incurred loss impairment model used in IAS39. The new model will result in more timely recognition of expected credit losses. IFRS 9 also includes a simplified hedge accounting model, aligning hedge accounting more closely with risk management. IFRS 9 is effective for years beginning on or after January 1, 2018. Early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period.

IFRS 15 Revenue from Contracts With Customers – On May 28, 2014, the IASB issued IFRS 15, "Revenue From Contracts With Customers" ("IFRS 15") replacing International Accounting Standard 11, "Construction Contracts" ("IAS 11"), IAS 18, "Revenue" ("IAS 18"), and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. IFRS 15 is effective for years beginning on or after January 1, 2018.

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

IFRS 16 Leases – In January 2016, the IASB issued IFRS 16, "Leases" ("IFRS 16") replacing International Accounting Standard 17, "Leases" ("IAS 17"). IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, the customer ("lessee") and the supplier ("lessor"). The standard provides revised guidance on identifying a lease and separating lease and non-lease components of a contract. It introduces a single accounting model for all leases and requires a lessee to recognize right-of-use assets and lease liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value, and depreciation of lease assets separately from interest on lease liabilities in the income statement. Lessor accounting for operating and finance leases will remain substantially unchanged. IFRS 16 is effective for years beginning on or after January 1, 2019.

The Company has not determined the impact on its consolidated financial statements from the adoption of the above 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 income (loss) and comprehensive income (loss). Transaction costs are expensed. Assets in this category include cash and cash equivalents and the term deposit.

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 income (loss) and comprehensive income (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, demand operating loan, trade and other payables, factoring liability, mezzanine loan and long-term debt.

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

Fair values

The fair values of cash and cash equivalents, term deposit, trade and other receivables, bank overdraft, demand operating loan, and trade and other payables, factoring liability and mezzanine loan 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 and term deposit are measured based on Level 1. There were no transfers between Level 1, 2 and 3 during the year.

Risk management

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

Interest Rate Risk
The BDC Financing, which had a balance of $1,236,494 outstanding at December 31, 2016 is subject to floating rates. Based on the floating rate debt outstanding at December 31, 2016 a 1% increase/decrease in interest rates would result in a decrease/increase in the comprehensive income (loss) of approximately $9,000.

Credit Risk
Financial instruments that subject the Company to credit risk consist primarily of cash and cash equivalent, trade receivables and the share acquisition loans. The Company manages credit risk using credit approval and monitoring practices. At December 31, 2016, 9 customers accounted for approximately 90% of trade

receivables (at December 31, 2015, 5 customers accounted for approximately 90% of trade receivables). (See Note 5 for aging of outstanding trade receivables at December 31, 2016 and 2015). At December 31, 2016 the Company had $84,338 of cash and cash equivalents, an $80,000 term deposit and $57,270 of fair valued share acquisition loans that are outstanding with two officers, and a former officer, of the Company.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations. Liquidity risk management involves maintaining sufficient cash and cash equivalents and the availability of working capital financing. The receivable purchase agreement with Tallinn Capital provides additional flexibility as it allows the Company to accelerate collection of trade receivables and thus improve working capital management.

The table below summarizes the maturity profile of the Corporation's financial liabilities at December 31, 2016 and 2015 based on contractual undiscounted payments.

	Less than 1 year	1 to 2 years	2 to 6 years	Total
As at December 31, 2016				
Bank overdraft	$ 33,201	$ -	$ -	$ 33,210
Trade and other payables	484,977	-	-	484,977
Long-term debt	284,462	1,284,142	667,890	2,236.494
Finance lease obligations	77,060	47,243	124,632	248,935
	$ 879,700	$ 1,331,385	$ 792,522	$ 3,003,607

	Less than 1 year	1 to 2 years	2 to 5 years	Total
As at December 31, 2015				
Trade and other payables	$ 2,104,234	$ -	$ -	$ 2,104,234
Factored liability	703,462	-	-	703,462
Mezzanine loan	750,000	-	-	750,000
Long-term debt	286,662	1,200,862	535,632	2,023,156
Finance lease obligations	56,247	58,540	82,423	197,210
	$ 3,900,605	$ 1,259,402	$ 618,055	$ 5,778,062

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:

	2016	2015
Cash and cash equivalents	**$ 60,666**	$ 213,748
Trade and other receivables	**$ 39,672**	$ 55,842
Inventory	**$ -**	$ 1,906
Prepaid expenses and deposits	**$ 9,837**	$ 9,805
Trade and other payables	**$ 14,317**	$ 22,937

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, 2016, 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 $6,400.

P. Disclosure of Outstanding Share Data

As at December 31, 2016 and March 1, 2017, the following is a description of the outstanding equity securities and convertible securities previously issued by the Company

	Authorized	Outstanding as at December 31, 2016	Outstanding as at March 1, 2017
Voting or equity securities issued and outstanding	Unlimited Common Shares	34,475,994 Common Shares	34,475,994 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 3,425,000 Common Shares at an exercise price at $0.145 to $0.43	Stock options to acquire 3,425.000 Common Shares at an exercise price at $0.145 to $0.43

In 2016, there were 650,000 stock options granted; 300,000 granted stock options were exercised; and 66,667 stock options expired.

At December 31, 2016, 766,667 granted options had not vested and the Company had 22,599 shares reserved for the issuance of new stock options.

Q. Outlook

Management is forecasting a return the profitability in 2017.

The Company's current Sales Pipeline for 2017, indicates that there will be significant growth in infrastructure sales in both the Canadian and U.S. market, without even considering the effect of the new agreements with Lafarge and any new increases in infrastructure spending by various governments. The Company began to develop this market in 2008 and it has grown steadily as its products have gained acceptance by design engineers and received product approvals by provincial and state authorities. Both the Canadian and U.S. governments, at both the provincial/state and federal levels, have announced significant planned spending in new and replacement infrastructure projects which should increase the Company's prospects in this market.

The new agreements with Lafarge to develop the market in Canada for CEMATRIX cellular concrete, which will also increase Lafarge sales into markets that it has not serviced in the past, and the results of the various research and development programs also bodes well for future sales growth in the infrastructure market.

Sales in the oil and gas sector of Western Canada will be down from those in 2016. There is year over year work in this sector associated with refinery and pipeline annual maintenance spending. Future growth in this market will be dependent on the re-bounding of oil prices to a level that supports the investment in new or expansion facilities by this industry. There have been some positive signs in this market recently as oil prices in particular have recovered somewhat and a few companies have announced the re-start of their delayed projects.

As of this date, the Company has $6.9 million of sales contracts in place for projects scheduled for 2017. In addition, the Company has been approached to provide design assistance, or quotes, or both, for numerous other projects currently scheduled to be completed in 2017 and beyond.

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For the Year Ending December 31, 2016

Appendix A – Forward Looking Statements

The forward-looking statements in the MD&A for the year ending December 31, 2016 are outlined below:

General

There are a number of statements in the MD&A which refer to "expect", "believes", "ensure", "have a profound effect", "expected sales growth or increase", "forecast revenue growth", "anticipated growth" and "forecasting".

The foregoing statements contains forward-looking statements which are based on sales forecasts prepared for 2017; sales forecasts include work which is under contract for 2017, 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 2017 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.

Appendix B – Definitions

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

Revenues:
Total revenues of the Company that primarily consists of the production and placement of cellular concrete.

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

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

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

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

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

Unrealized Foreign Exchange Gain (Loss) on Translation of Foreign Subsidiary:
The unrealized gain (loss) resulting from the translation of CEMATRIX's U.S. subsidiary into Canadian dollars. This foreign exchange gain or loss is recognized only when there is a return of capital from the U.S. subsidiary.

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

Cement
This refers to cement and other dry powders

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