Cellular Concrete Solutions

CEMATRIX CORPORATION

Management's Discussion and Analysis

For the Year Ended December 31, 2021

(in 000's Canadian dollars)

CEMATRIX CORPORATION
www.cematrix.com

Form 51-102F1 - Management's Discussion & Analysis
For the Three and Nine Months Ended September 30, 2021

The following is the Management's Discussion and Analysis ("MD&A") of CEMATRIX Corporation ("CEMATRIX" or the "Company") for the year ended December 31, 2021. This MD&A should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2021 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, 2020 and related notes thereto. These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All dollar figures included therein and in this MD&A are in Canadian dollars and all amounts are reported in thousands of Canadian dollars, except share and per share amounts or as otherwise stated. Certain comparative figures have been reclassified to conform to the MD&A presentation adopted for the current year.

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

The Audit Committee of the Company reviewed and recommended for approval by the Board of Directors of the Company the Consolidated Financial Statements and MD&A for the year ended December 31, 2021. The Board of Directors of the Company reviewed and approved the Consolidated Financial Statements and MD&A on April 13, 2022.

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Forward Looking Statements

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

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

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

The Company has discussed, in Section E – Key Market Drivers and in Section F – Key Risks and Uncertainties of its MD&A 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, 2021, the Company's financial condition as at December 31, 2021 and its future prospects.

B. Management Highlights

Financial Position Improvement

Our current cash position is now $20.2 million versus $2.8 million one year ago. In 2021, we have paid down or reduced current and long-term liabilities by $13.8 million. With a strategic focus on reducing leverage on the balance sheet, the recent financing, and historical / forecasted positive cash flow from operations the Company is well positioned financially. The long-term financial health of the Company has never been better and is the result of the following:

1. In the first quarter, the Company completed a short form prospectus public offering raising $23.0 million in gross proceeds on March 18, 2021. The offering was heavily oversubscribed indicating continued investor interest and support of the Company. The Company will use these funds to pursue further growth opportunities including acquisitions, regional expansion, working capital, and to reduce leverage on the balance sheet.

2. In the second quarter, the holders of the $2.5 million USD MOS Convertible Note ("MOS CN's") elected to convert the MOS CN's into 13,373,684 common shares of the company. This conversion significantly reduced the outstanding debt of the company and as a result also reduced go forward interest costs. The conversion resulted in a significant decrease in current liabilities and as a result significantly improved working capital.

3. The Company raised $4.1 million from the exercise of warrants and options during the year. This increase was attributed to the share price increase and the exercise of instruments that would have otherwise expired had they not been exercised. Company uses funds from the exercise of warrants and options for general working capital purposes including operating debt reduction.

4. During the year the Company used funds raised through its public offering and exercise of warrants and options to repay $4.9 million in amounts related to long term debt, debenture, finance lease obligations and earnout liabilities. These repayments coupled with the conversion of the MOS Convertible Note significantly delever the balance sheet of the Company and reduce interest costs going forward.

COVID19 Impact was significant in 2021

During 2021, COVID19 ("COVID" or the "Pandemic") continued to impact our business primarily through project delays. Factors beyond our control, such as supply chain issues and pandemic labour restrictions, experienced by our customers have led to project delays which resulted in lower sales for the fourth quarter and year. This trend is not expected to continue into 2023, however, as we have seen during the Pandemic this can change quickly should a new variant come to the forefront.

Key Projects Shift into 2022

The decline in sales this year is mainly attributed to delay in the $12.5 million (USD) North Carolina DOT project that was originally scheduled to require our cellular concrete starting in the second quarter of 2021. After numerous delays, the project got underway this fall, so the requirement for our product is now scheduled for late summer / fall of 2022. Had this project moved forward as originally planned our 2021 revenues would have been above 2020 revenues.

Canadian Business Recovers

The Company experienced a sales recovery in Canada as a number of the projects that were delayed from 2020 were executed in 2021. We also increased sales in newer markets for the Company in Canada, adding momentum to our regional expansion efforts. Sales in Canada were $9.5 million in 2021 versus $5.1 million in 2020, which was an increase of 85%. Based on continued organic growth in the Canadian market and the reduced impact of COVID compared to prior years, we expect 2022 revenue in Canada to be continue to grow.

US Business Impacted by Project Delays and Project Timing

Unfortunately, our US sales declined in 2021 versus 2020 due primarily to the delay in the North Carolina DOT project. The timing of tunnel projects in backlog also contributed to reduced sales in the U.S. There are numerous large tunnel grouting projects in our backlog, but most are not scheduled to be completed until 2022 and beyond. Sales in the US were $13.1 million in 2021 versus $21.4 million in 2020, which was an decrease of 39%. We expect 2022 revenue to rebound back to or above 2020 revenue levels due to the current projected timing of several projects in backlog and the reduced impact of COVID compared to prior years.

Lafarge Agreements Renewed

In the third quarter, the Company renewed its Joint Marketing Agreement and Cement Supply Agreement ("the Agreements") with Lafarge Canada Inc. ("Lafarge") for another five years. The Agreements support the joint development of the Canadian cellular concrete market with the ongoing objective of increasing cellular concrete sales to the mutual benefit of both parties. The extension of these agreements is a natural result of the joint successes we have experienced on numerous projects with the full expectation that this relationship will only continue to grow into the future. CEMATRIX and Lafarge plan to continue to expand on these successes by committing sufficient resources to furthering cellular concrete markets and cement sales throughout Canada. Both parties are also exploring the potential for joint research projects and the continued testing of alternative materials for the mutual benefit of our companies and the benefit of our environment.

Strong Backlog – Continued New Project Awards

The Company continues to see a strong bid pipeline and be awarded new projects. In addition, the Company continues to win new projects replacing projects in backlog that are being delivered. Forecasts for 2022 and 2023 continue to look very positive as a result of our strong backlog and sales pipeline.

Financial Review – Fourth Quarter

For the fourth quarter of 2021, revenues were $6.9 million, an increase of $2.6 million or 58%, compared to $4.4 million in the fourth quarter of 2020. The increase in revenue was mainly due to the timing of large projects particularly tunnel grouting work and as well as increased activity jurisdictions where inclement weather has a lesser impact on operations.

Gross Margin was $1.7 million in the fourth quarter of 2021, compared to $0.4 million in the fourth quarter of 2020, an increase of $1.3 million or 337%. In addition, Gross Margin percentage increased to 24% in the fourth quarter of 2021 compared to 9% in the fourth quarter of 2020. The increase in Gross Margin and Gross Margin percentage is the result of a combination of higher revenues combined with similar fixed operational costs.

Adjusted EBITDA was positive $0.1 million in the fourth quarter of 2021 compared to negative $0.2 million in the fourth quarter of 2020. The improvement in adjusted EBITDA was due primarily to higher revenues and resulting higher gross margins.

The Company generated cash flow from operating activities of $0.7 million in the fourth quarter of 2021, compared to $1.1 million in the same period in 2020.

Financial Review – Year

Revenue for the year ended December 31, 2021, was $22.6 million, a decrease of $4.0 million or 15% compared to 2020. This decrease in revenue was mainly due to delay of a large project to 2022, partially offset by increased sales from Canada.

Gross Margin and Gross Margin Percentage were $3.9 million and 17%, respectively for 2021 compared to $5.6 million or 21% in 2020, a decrease of $1.7 million or 31%. The change in the gross margins was due in large part to lower revenues as a significant portion of the Company's direct labour costs are fixed and as a result margins improve significantly as revenue increases above breakeven levels.

2021 Adjusted EBITDA was a negative $0.7 million, compared with positive Adjusted EBITDA of $1.3 million in the same period in 2020, because of lower revenues and resulting lower gross profit margins.

The Company generated negative cash flow from operating activities of $0.8 million in 2021, compared to positive cash flow from operating activities of $1.7 million in the same period in 2020.

C. Corporate Overview

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

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

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

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

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

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

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

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

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

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

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

D. Business Strategy for Growth and Shareholder Value Creation

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

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

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

E. Key Market Drivers

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

Product Acceptance Through Education of the Market

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

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

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

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

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

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

Joint Marketing and Supply Agreements with Lafarge Supporting the 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 was for Winnipeg, Manitoba, and other locations will be added at the direction of Lafarge.

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

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

Availability of Capital for Infrastructure Construction

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

F. Key Risks and Uncertainties

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

Supply Chain Challenges

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

Staffing Requirements

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

Inflation

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

Project Scheduling

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

Increasing Cement Commodity Prices

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

Access to Capital

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

Competition

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

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

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

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

Product Warranties

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

COVID-19 Pandemic

The COVID-19 pandemic has resulted in governments worldwide enacting emergency measures to combat the spread of the virus, including travel restrictions, self-imposed quarantine periods and physical distancing measure that have caused disruption to businesses and resulted in economic slowdown. The depth of the impact of the COVID-19 pandemic on North American economy continues to evolve, with disruptive effects in jurisdictions in which CEMATRIX operates. While some government measures, to varying degrees across regions, have eased the impact on economy, subsequent surges in COVID-19 have caused and could continue to cause, some restrictive measures to be reinstated and therefore, future economic activity to be uncertain.

The COVID-19 pandemic continues to impact CEMATRIX business. Although, the company has been generally exempted from mandates requiring closures of non-essential businesses and therefore, has been able to continue operations, revenues were negatively impacted by the COVID-19 pandemic and related government measures. Certain projects that were expected to initiate at a certain point in time were delayed and deferred to a future date. These impacts may continue to occur in future periods, with unpredictable timing or frequency. The Company continues to monitor these developments and the impact of the risks related to COVID-19 pandemic on its operations and health and safety of its employees.

G. Operations and Overall Performance

Results of Operations – Fourth Quarter

Comparison of the Three Months Ended December 31, 2021, with the same period in 2020:

	Three Months Ended December 31		
	2021	2020	Change
Revenue	**$ 6,948**	$ 4,386	$ 2,562
Gross margin	**$ 1,675**	$ 383	$ 1,292
Operating expenses	**(1,749)**	(1,899)	150
Operating income (loss)	**(74)**	(1,516)	1,442
Non-cash stock based compensation	**(91)**	(10)	(81)
Finance costs	**(189)**	(387)	198
Other income (expense)	**(271)**	1,132	(1,403)
Amortization of intangibles	**(180)**	(186)	6
Impairment of intangibles	**(768)**	-	(768)
Accretion costs	**(79)**	(144)	65
Revaluation of earnout liability	**-**	191	(191)
Non-cash fair value of derivatives	**(227)**	(6,192)	5,965
Loss before income taxes	**(1,879)**	(7,112)	5,233
Provision of deferred taxes	**322**	946	(624)
Provision of current taxes	**(6)**	(224)	218
Loss attributable to the common shareholder	**(1,563)**	(6,390)	4,827
Unrealized foreign exchange gain (loss) on translation of foreign subsidiaries	**(60)**	(511)	451
Comprehensive income (loss)	**$ (1,623)**	$ (6,901)	**$** 5,278
Fully diluted gain (loss) per common share	**$ (0.009)**	$ (0.098)	$ 0.089

Revenue was $6,948 in the fourth quarter of 2021 compared to $4,386 in the same period in 2020, an increase of 58% or 2,562. The increase in revenue was mainly due to the timing of large projects as well as increased activity in locations where inclement weather has a lesser impact on operations.

Gross Margin Percentage was 24% in fourth quarter 2021 compared to 9% in the same period in 2020, an increase of 15 percentage points. The increase in Gross Margin and Gross Margin percentage is the result of a combination of higher revenues combined with similar fixed operational costs.

Operating expenses were $1,749 in the fourth quarter of 2021 compared to $1,899 in the same period in 2020, a decrease of 8% mainly due to a reduction in post-employment termination payouts compared to the same period in 2020.

Non-cash stock-based compensation expense of $91 for the fourth quarter of 2021 compared to $10 the fourth quarter of 2020. The $81 increase was due to new stock option granted to employees in during the year. In addition, the Company issued restricted share units (“RSU”) in the second quarter of 2021, which also resulted in an increase in stock-based compensation expense in the current quarter.

Finance costs were $189 in the fourth quarter of 2021 compared to $378 in the same period in 2020, a decrease of $198 or 51% decrease. The decrease can be mainly attributed to lower finance costs because of repayment of principal of BDC loans, the repayment of the secured debenture and the repayment of the US operating loan in the earlier periods; partially offset by costs incurred to refinance the credit facility agreement.

Other income (expense) was ($271) in the fourth quarter of 2021 compared to an income of $1,132 in the same period in 2020. The $1,403 reduction in other income is attributable to a number of factors. The largest factor was the combined impact of the introduction of a "clawback" to the Canadian governments wage subsidy program in Q4 2021 and no significant subsidy claims versus the same period last year that had significant claims from the program. The combined changes to Canadian government wage and rent subsidies resulted income reduction of $1,005. Additionally, there was a reduction in foreign exchange gains (both realized and unrealized) of $213, a reduction of earnout expense of $110; and increase related to costs for a new credit facility resulted in $75 other expense.

Amortization of intangibles was $180 in the fourth quarter of 2021 compared to $186 in the same period in 2020. The expense originated from the acquisition of PIGCO where intangible assets of $1,706 were attributed to the value of the sales backlog on the business combination and was being amortized into income. PIGCO sales backlog was amortized over a period of October 1, 2019, to December 31, 2021 and is now fully amortized.

The company recorded an impairment of intangibles of $768 in the fourth quarter of 2021. An impairment on indefinite lives of intangible assets of $465 (2020 $nil) and an impairment on product testing costs of $303 (2020 $nil) based on the results of the Value in Use calculations.

Accretion costs were $79 in the third quarter of 2021 compared to $144 for the same period in 2020. In the fourth quarter of 2021, the accretion expense entirely related to the host debt contract of the convertible debenture. In 2020, accretion expense also included accretion relating to the remaining tranches of the earn-out liability and convertible note, both originated from the acquisition of MOS.

The convertible debentures, which were issued in April 2020 was trifurcated into a host debt contract, prepayment, and equity features, of which the prepayment feature is accounted for as a derivative and revaluated at every reporting period. Based upon the modified Black-Scholes option pricing model, the fair value of the prepayment feature of the convertible debenture decreased by $227 in the fourth quarter of 2021, compared to a $127 increase in the fourth quarter of 2020. In the fourth quarter of 2020, the fair value loss of $6,192 also included the change in value of derivative features of the convertible note issued upon acquisition of MOS.

Unrealized foreign exchange gains and losses on the translation of foreign subsidiaries are recognized through other comprehensive income. MOS, PIGCO and CEMATRIX (USA) Inc. have a USD functional currency and as the Canadian dollar strengthened relative to the USD, the value of these assets appreciated resulting in an unrealized foreign exchange loss of $60, in the fourth quarter of 2021, compared to an unrealized foreign exchange loss of $511 in same period in 2020.

Results of Operations – Annual

Comparison of the Year Ended December 31, 2021, and 2020:

	Year Ended December 31		
	2021	2020	Change
Revenue	**$ 22,601**	$ 26,564	$ (3,963)
Gross margin	**$ 3,898**	$ 5,618	$ (1,720)
Operating expenses	**(6,630)**	(6,565)	(65)
Operating loss	**(2,732)**	(947)	(1,785)
Non-cash stock based compensation	**(274)**	(103)	(171)
Finance costs	**(959)**	(1,550)	591
Other income (expense)	**470**	456	14
Amortization of intangibles	**(718)**	(768)	50
Impairment of intangibles	**(768)**	-	(768)
Accretion costs	**(346)**	(613)	267
Revaluation of earn-out liability	**132**	80	52
Non-cash fair value of derivatives	**2,495**	(6,130)	8,625
Loss before income taxes	**(2,700)**	(9,575)	6,875
Provision of deferred taxes	**932**	24	908
Provision of current taxes	**(87)**	(225)	138
Loss attributable to the common shareholder	**(1,855)**	(9,776)	7,921
Unrealized foreign exchange gain (loss) on translation of foreign subsidiaries	**(85)**	(340)	255
Comprehensive loss	**$ (1,940)**	$ (10,116)	**$** 8,176
Fully diluted loss per common share	**$ (0.016)**	$ (0.013)	$ (0.003)

Revenue for 2021 was $22,601 compared to $26,564 in the prior year, a decrease of $3,963 or 15%. The decrease was mainly due to lower sales in the US due to the timing of large projects, offset partially by higher sales in Canada versus 2020.

Gross Margin for 2021 was $3,898 compared to $5,618, a decrease of $1,720 compared to the prior year. As a percentage of revenues, the Gross Margin Percentage declined in 2021 to 17% compared to 21% in prior year. The decrease in Gross Margin percentage is largely related to the lower revenue compared to fixed operational costs.

Operating expenses for 2021 was $6,631 compared to $6,565 in the prior year. Operating expenses were very similar year over year. Operating expenses increased marginally due to annual increases in salaries and wages, new hires, and new Board compensation. Repairs and maintenance expenses were also higher in the period as the slower activity levels allowed the Company to get ahead of some planned maintenance. These increases were partially offset by reduced audit and consulting costs and reduced travel costs because of the COVID-19 pandemic.

Non-cash stock-based compensation expense for 2021 was $274, compared to $103 in the prior year. The increase of $171 was largely due to new stock option grants to employees in 2021. In addition, the Company issued RSU’s in the second quarter of 2021, which also resulted in an increase in stock-based compensation expense in the current period.

Finance costs for 2021 were $959 compared to $1,550 in the same period in 2020. The decrease of $591is mainly attributed to lower finance costs because of repayment of principal of BDC loans, the prepayment of the secured debenture and the repayment of the US operating loan in the earlier periods.

Other income for 2021 was $470 compared to $456 in the prior year representing an increase of $14. The change was primarily the result of a $511 reduction in other income for funds received under the Canadian wage and rent subsidy programs offset by a $468 reduction in other expenses to earn-out expense in relation to the PIGCO and MOS acquisitions was recognized in 2020, which was not incurred in the current year. Unrealized and realized foreign exchange gains, changes in gains and losses on the sale of equipment, and costs incurred related to a new credit facility composed the remaining changes.

Amortization of intangibles for 2021 was $718 compared to $768 in the prior year. The expense originated because of acquisition of PIGCO where intangible assets of $1,706 were attributed to the value of the sales backlog on the business combination. PIGCO sales backlog is being amortized over a period of October 1, 2019, to December 31, 2021 and is now fully amortized.

The company recorded an impairment of intangibles of $768 in the fourth quarter of 2021. An impairment on indefinite lives of intangible assets of $465 (2020 $nil) and an impairment on product testing costs of $303 (2020 $nil) based on the results of the Value in Use calculations.

Accretion costs for 2021 were $346 compared to $613 in the prior year. Accretion expense relating to the remaining tranches of the earn-out liability was $53, accretion on the host debt contract of the convertible debenture was $293. Accretion on the earn-out liability and convertible note originated from the acquisition of MOS and were originally recorded at a discount. Accretion ended at the maturity date of these liabilities on May 31, 2021. The convertible debenture was issued April 22, 2020 and has a maturity date of April 22, 2023.

The earn-out liability in relation to the MOS acquisition for the third 12 month period ended May 31, 2021 resulted in a non-cash gain of $132 ($80 in 2020).

The convertible note issued upon acquisition of MOS was trifurcated into the host debt contract and conversion and prepayment features, both of which are accounted for as derivatives and revaluated at every reporting period. Based upon the Black-Scholes option pricing model, the fair value of the conversion and prepayment features of the convertible note decreased by a net of $2,722 in the first half of 2021 resulting in a gain for the same amount, compared to an increase of $6,130 in 2020. The convertible debenture, which was issued in April 2020 was trifurcated into a host debt contract, prepayment, and equity features, of which the prepayment feature is accounted for as a derivative and revaluated at every reporting period. Based upon the modified Black-Scholes option pricing model, the fair value of the prepayment feature of the convertible debenture decreased by $287 in 2021, resulting in a loss for the same amount, compared to a increase of $207 in 2020, resulting in a gain of the same amount.

Unrealized foreign exchange gains and losses on the translation of foreign subsidiaries are recognized through other comprehensive income. MOS, PIGCO and CEMATRIX (USA) Inc. have a USD functional currency and as the Canadian dollar strengthened relative to the USD, the value of these assets depreciated resulting in an unrealized foreign exchange gain of $279 in 2021. The opposite effect occurred in 2020 which resulted in an unrealized foreign exchange loss of $340.

H. Selected Financial Information and Summary of Financial Results

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

Quarters Ended		Revenues		Comprehensive Income (Loss)		Income (Loss) Per Share Basic		Income (Loss) Per Share Diluted
2021 Year								
March 31	**$**	**4,509**	**$**	**85**	**$**	**0.003**	**$**	**(0.011)**
June 30		**4,017**		**(571)**		**(0.004)**		**(0.004)**
September 30		**7,128**		**169**		**(0.001)**		**(0.001)**
December 31		**6,948**		**(1,623)**		**(0.009)**		**(0.009)**
Total for year	**$**	**22,601**	**$**	**(1,940)**	**$**	**(0.016)**	**$**	**(0.016)**
2020 Year								
March 31	$	3,932	$	(534)	$	(0.023)	$	(0.023)
June 30		7,366		(1,039)		(0.010)		(0.010)
September 30		10,880		(1,642)		(0.022)		(0.022)
December 31		4,386		(6,901)		(0.098)		(0.098)
Total for year	$	26,564	$	(10,116)	$	(0.158)	$	(0.158)

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

I. Consolidated Statements of Financial Position

Results - Annual

Comparison for the year ended December 31, 2021, and 2020:

		December 31 2021		December 31 2020		Change
Current assets	**$**	**26,437**	$	8,106	$	18,331
Non current assets		**17,952**		20,732		(2,780)
Total assets	**$**	**44,389**	$	28,838	$	15,551
Current liabilities	**$**	**4,659**	$	15,873	$	(11,214)
Non current liabilities		**8,149**		12,286		(4,137)
Total liabilities	**$**	**12,808**	$	28,159	$	(15,351)
Shareholders' equity	**$**	**31,581**	$	679	$	30,902

Total current assets increased by $18,331. This increase in aggregate is summarized below:

- Cash increased by $17,470 (See the discussion in Section F - Consolidated Statement of Cash Flows);
- Trade and other receivables increased by $582 as a result of more activity during the quarter and timing differences in the collections of trade receivables and sales;
- Inventory increased by $26 as a result of the purchase of foaming agent for future work;
- Prepaids and deposits increased by $253 due to the decision to pay insurance premiums using cash in the current year instead of financing the premiums.

Total non-current assets decreased by $2,780. This decrease in aggregate is summarized below:

- Property and equipment decreased by $973 primarily as a result of depreciation expense of $1,768, dispositions with a net book value of $463, and a $61 foreign exchange loss on the translation of assets held by our foreign denominated subsidiaries, partially offset by capital expenditures of $1,319;
- Goodwill and intangibles assets decreased by $1,520 because of: $718 in amortization, $33 foreign exchange loss on the translation of assets held by our foreign denominated subsidiaries, an impairment on indefinite lives of intangible assets of $465, and an impairment on product testing costs of $303;
- Convertible debt – non cash derivative asset decreased by $287 due to being revalued. At December 31, 2021, the convertible debenture forced conversion feature, which is a derivative asset had a carrying value of $27, compared to $314 as at December 31, 2020.

Total current liabilities decreased by $11,214. This decrease in aggregate is summarized below:

- Bank operating loan decreased by $129 due to repayment of the loan;
- Trade and other payables increased by $771 largely due to increased revenue and operations during the fourth quarter of the year;
- Current portion of long-term debt decreased by $181 as a result of the reduction of loan repayments for the BDC CAD denominated loans;
- Current portion of lease obligations remained consistent with prior year;
- Current portion of the earn-out liability is $nil as all tranches owing in relation to the MOS acquisition and PIGCO acquisition were paid out in 2021. The MOS earnout is now complete. The second tranche in relation with the PIGCO acquisition was completed in the third quarter of 2021 and no earnout was calculated as owing. The Company's remaining earn-out liability will originate from PIGCO's financial performance in the following two years. With the acquisition of PIGCO in October 2019, the Company has agreed to pay an annual earn-out payment to the Vendor for four years following the closing date of the acquisition. The earn-out payment is calculated on the operations of PIGCO annually and pay 65% of the Adjusted EBITDA above $500 USD to the Vendor, ending September 30, 2023.
- The MOS USD convertible note had a face value of $2,500 USD and was issued on the acquisition of MOS. On issuance, the convertible note was trifurcated into a conversion feature, prepayment feature and a debt host contract. During the second quarter of 2021, the convertible note was converted into 13,373,684 CEMATRIX common shares, with the convertible note liability balance of $6,662 allocated to share capital upon conversion.

Total non-current liabilities decreased by $4,137. This decrease in aggregate is summarized below:

- Long term debt decreased by $2,183 as a result of repayments on secured debenture, repayment of CAD and USD denominated BDC Loans;
- Lease obligations decreased by $375 as a result of lease payments and unrealized foreign exchange gains on the translation of foreign denominated leases;
- On April 22, 2020, the Company issued unsecured convertible debenture with a total principal amount of $5,720 at a price of $1,000 per debenture with a maturity of April 22, 2023. On issuance, the convertible debenture was trifurcated into a host debt contract, forced conversion and equity features. At December 31, 2021, the convertible debenture host debt contract had an aggregate carrying value of $3,107;
- The deferred tax liability decreased by $899 primarily due to losses in our US operations which created a deferred tax asset that was offset against previously existing deferred tax liabilities and ultimately reducing deferred tax liabilities.

Shareholders' Equity increased by $30,902. This increase in aggregate is summarized below:

- Share capital increased $28,601 due to the following:
    - Share capital increased by $15,224 upon the completion of public offering raising $23,000 in gross proceeds. The Offering was for 35,384,600 units at a price of $0.65 per unit of the Company. Additionally, the lead agents were paid a corporate finance fee satisfied by the issuance of 1,415,384 units for a total of 36,799,984 units.
    - The company issued 11,381,571 shares on the exercise of warrants. The exercise price range was between $0.30 and $0.45 and cash proceeds of $3,611 were received during the year. The related non-cash benefit of $1,918, which was previously charged to contributed surplus was also reclassified to share capital.
    - In the second quarter of 2021, the convertible note issued in conjunction with the acquisition of MOS was converted into 13,373,684 common shares, with the convertible note liability balance of $6,662 allocated to share capital upon conversion.
    - The Company issued 3,215,000 common shares upon the exercise of convertible debenture. The principal amount of $1,286 was converted and allocated to share capital and contributed surplus (net of transaction costs and tax) based on fair value assigned at the time of issuance. As a result, $636 and $334 was allocated to share capital and contributed surplus, respectively.
    - The Company issued 2,392,949 common shares and share capital increased by $569 on the exercise of employee stock options and broker warrants. The related non-cash benefit of $1,918 was also reclassified to share capital upon exercise of stock options and broker warrants during the period.
- Contributed surplus increased by $4,365, mainly due to the completion of public offering as mentioned above and the issuance of 18,399,992 warrants and 2,830,768 broker warrants. The warrants and broker warrants issued were valued at $5,666. In addition, $617 was reclassified to contributed surplus upon exercise of convertible debenture and broker warrants and the recognition of stock based compensation expense for the period. This was partially offset by $1,918, which was reclassified to share capital from contributed surplus upon exercise of warrants and options.
- Accumulated other comprehensive loss increased by $85 due to the unrealized foreign exchange loss on the translation of MOS, PIGCO and CEMATRIX (USA) Inc. as the USD depreciated versus the Canadian dollar;
- The convertible debenture has a conversion feature, which is classified as equity. In addition, the broker warrants issued as part of the transaction costs for this financing was also classified as equity. In 2021, upon the exercise of both convertible debenture and broker warrants, the Company reclassified $101 and $23 from the equity component of convertible debenture to both share capital and contributed surplus, respectively;
- The Deficit increased by $1,855 due to the loss to common shareholders for the year ended December 31, 2021.

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

J. Consolidated Statements of Cash Flows

Cash Flow – Fourth Quarter

The cash position of the Company as at December 31, 2021 was $20,231 (consisting of cash in the bank of $19,945 and restricted cash of $286) compared to a cash position of $2,761 (consisting of cash in the bank of $2,475 and restricted cash of $80) as at December 31, 2020.

The change in cash in the fourth quarter of 2021 was a decrease of $302 as compared to a decrease of $1,047 in the same period of 2020. This change is outlined in the table:

	Three Months Ended December 31		
	2021	2020	Change
Cash generated from (used in) operating activities			
Before non-cash working capital adjustment	**$ 78**	$ (491)	$ 569
Net change in non-cash working capital items	**641**	1,611	(970)
	719	1,120	(401)
Cash used in investing activities	**(164)**	3	(167)
Cash used in financing activities	**(855)**	(2,126)	1,271
Foreign exchange effect on cash	**(2)**	(44)	42
Increase (decrease) in cash	**(302)**	(1,047)	745
Cash at beginning of period	**20,533**	3,808	16,725
Cash at end of period	**$ 20,231**	$ 2,761	$ 17,470

- Cash generated from operating activities decreased by $401.
  - Cash flow before non-cash working capital adjustments increased by $569 mainly because of higher revenues and related gross margins when compared to the prior quarter period.
  - Net change in non-cash working capital items decreased by $970, primarily due to the level of trade receivables generated in the respective periods and the timing of their collection.
- Cash used in investing activities increased by $167.
  - Property and equipment additions increased by $219 mainly due to purchase of equipment during the quarter.
  - Proceeds from property and equipment dispositions were $55 as the company disposed of retired trucks.
- Cash used in financing activities decreased by $1,271.
  - Proceeds from the exercise of stock options and warrants decreased $103 due to smaller amount of activity and lower share price
  - Repayment of finance lease obligations increased by $30 as the company entered new leases for Trucks and equipment.
  - Repayment of long term debt, operating loan, and US operating loan decreased by $1,208 and interest payments decreased by $197 in the fourth quarter as the Company realized the benefit of reduced leverage on the balance sheet that was completed in the first half of 2021.

Cash Flow – Year

The cash position of the Company as at December 31, 2021 was $20,231 (consisting of cash in the bank of $19,945 and restricted cash of $286) compared to a cash position of $2,761 (consisting of cash in the bank of $2,475 and restricted cash of $286) as at December 31, 2020.

The change in cash in the year 2021 was an increase of $17,470 as compared to an increase of $1,861 in the same period of 2020. This change is outlined in the table:

	Year Ended December 31		
	2021	2020	Change
Cash generated from (used in) operating activities			
Before non-cash working capital adjustment	**$ (743)**	$ 1,524	$ (2,267)
Net change in non-cash working capital items	**(90)**	137	(227)
	(833)	1,661	(2,494)
Cash used in investing activities	**(619)**	(76)	(543)
Cash generated from financing activities	**18,954**	289	18,665
Foreign exchange effect on cash	**(32)**	(13)	(19)
Increase in cash	**17,470**	1,861	15,609
Cash at beginning of period	**2,761**	900	1,861
Cash at end of period	**$ 20,231**	$ 2,761	$ 17,470

- Cash generated from operating activities decreased by $2,494.
  - Cash flow before non-cash working capital adjustments decreased by $2,267 mainly as a result of lower revenues and related reduced gross margins when compared to the prior period.
  - Net change in non-cash working capital items decreased by $227 primarily due to the level of trade receivables generated in the respective periods and the timing of their collection.
- Cash used in investing activities increased by $543.
  - Property and equipment additions were $673 due to the purchase of equipment and trucks during the year.
  - Proceeds from property and equipment dispositions were $55 as the company disposed of retired trucks.
- Cash generated from financing activities increased by $18,665.
  - In 2021 the Company generated $18,954 from financing activities. This was mainly due to proceeds from public offering of $20,890 and $4,147 of proceeds from the exercise of options and warrants. This was partially offset by $2,047 repayment of earn-out liability, $319 repayment of long-term debt, $977 on interest payments and repayments of $129 on bank operating loan and $1,000 on secured debenture and $611 on lease obligations.

K. Liquidity and Capital Resources

Liquidity

The Company continues to focus on the strategic objective of strengthening by delivering and simplifying the balance sheet. With the steps taken in 2021, in particular the financing completing in 2021 and the conversion of the MOS convertible note, CEMATRIX's liquidity and capital resources are in the best position in the history of the Company.

The Company's liquidity, including obtaining cash resources to finance capital spending to increase its production capacity, is dependent on generating sales, profits, cash flow from operations, maintaining a facility to finance working capital and accessing capital debt facilities through loans or lease financing.

On March 18, 2021, the Company completed a public offering through a short form prospectus raising $23,000 in gross proceeds. The successful completion of this short form prospectus has provided some flexibility to the Company, as it starts to pursue further growth opportunities.

At December 31, 2021, the Company had cash balances of $20,231 versus $2,761 at December 31, 2020. The Company's Adjusted Net Working Capital was $3,002 at December 31, 2021 compared to $2,912 at December 31, 2020.

CEMATRIX's wholly owned subsidiary, CEMATRIX (Canada) Inc. has entered into a financing arrangement with the Canadian Western Bank ("CWB") which provides a $1,500 demand operating loan (the "Loan"). The Loan bears interest at an amount equal to 2% above CWB's prime lending rate, which is currently at 2.45% and is secured by a general security agreement providing a first secured interest on the receivables and inventory of CEMATRIX (Canada) Inc. The Loan is further guaranteed by the Company with the Company granting a general security agreement providing a first secured interest on all present and after acquired property of the Company. Under the Loan, the CWB will advance up to $1,500 based on 75% of Canadian trade receivables less than ninety days outstanding at the end of each month and 50% of inventories (up to a maximum $250). Based on these restrictions the actual Loan availability at December 31, 2021, was $1,496 of which $nil was outstanding ($129 – December 31, 2020).

In December 2020, the Company entered into an agreement with the CWB Bank; whereby the Bank provided a letter of credit up to a maximum amount of $206 to be used as security for a certain project. As a result, the Company was required to place this amount as a pledged bank balance, essentially, restricting the use of this cash amount until the project is completed.

The CWB bank operating loan has three financial covenants that must be maintained on a consolidated basis (refer to Appendix C for detailed calculations):

- Current ratio not less than 1.25, tested on a monthly basis. This is the ratio of current assets, excluding amounts due from related parties to current liabilities. Earn-out liabilities due to its contingent nature will not be considered as liabilities.
- Cash flow coverage ratio of not less than 1.25, tested on a quarterly basis. 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 leases. EBITDA will be calculated excluding the extraordinary items (acquisition cost, gain/loss on disposition of assets) and significant non-cash items (stock-based compensation, accretion costs, revaluation of the earn-out liability, mark to market adjustments, unrealized foreign exchange gains and losses);
- Debt to tangible net worth ratio not greater than 1.75, tested on a monthly basis. This is the ratio of indebtedness for borrowed money and leases divided by the net tangible worth. The definition of debt excludes the convertible debt and earn-out liability. Tangible net worth is defined as equity and includes the value of the convertible debt.

Up until December 31, 2020, consolidated cash flow coverage ratio was tested annually, with the remaining covenants being tested on a monthly basis; however, as of the first quarter of 2021, consolidated cash flow coverage ratio is now being tested quarterly. At December 31, 2021, CEMATRIX (Canada) Inc. was in compliance with the consolidated debt to tangible net worth and current ratio covenants; however, it was in breach of cash flow coverage ratio.

The BDC Financing Loan 4 and Loan 5 have a consolidated fixed charge coverage ratio financial covenant which is tested annually. At December 31, 2020, the Company was not in compliance with this covenant. On the same date, the BDC provided a tolerance for this covenant breach for the period up to and including December 31, 2020.

The Loan with the CWB was cancelled in January 2022 and replaced with new credit facility with the CIBC. CEMATRIX Corporation entered into a financing arrangement with CIBC which provides a $5,000 asset based demand operating credit facility (the "Credit Facility"). The Credit Facility bears interest at an amount equal to 1.5% above CIBC prime lending rate, which is currently at 2.70% and is secured by a general security agreement providing a first secured interest on the receivables and inventory of CEMATRIX's Canadian and US subsidiaries and first secured interest on all present and after acquired property of the Company subject to a priority agreement with the BDC and equipment finance. Under the Credit Facility, CIBC will advance up to $5,000 based on 75% of Canadian trade receivables less than ninety days outstanding at the end of each month and 50% of inventories.

Capital resources

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

The Company defines its capital as the long term debt, the lease obligations and shareholders' equity. The current objective of the Company is to manage its capital through growth in earnings and to re-invest the earnings generated to facilitate the continued growth in the Company, in order to provide an appropriate rate of return to shareholders in relation to the risks underlying the Company's assets. The consolidated capital of the Company, as outlined in Note 26 - Capital Management to the Consolidated Financial Statements, was $40,986 at December 31, 2021, as compared to $22,168 at December 31, 2020 (see Section E. Consolidated Statements of Financial Position for details).

L. Off Balance Sheet Arrangements

There were no off balance sheet arrangements at December 31, 2021.

M. Transactions with Related Parties

During the year ended December 31, 2021, the Company incurred legal fees from a firm which employs one of the directors of the Company in the amount of $7 (2020 - $1) of which $nil (2020 - $nil) is in trade and other payables as at December 31, 2021

N. Critical Accounting Judgements, Estimates and Assumptions

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgements are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the consolidated financial statements are described in Note 3 of the audited consolidated financial statements for the year ended December 31, 2021. There have been no changes since that date.

O. Changes in Accounting Policies including Initial Adoption

New accounting policies

There are no new standards issued but not yet effective as of January 1, 2022, that have a material impact to the Company's consolidated financial statements.

Future accounting pronouncements

The Company has reviewed new and revised standards and interpretations that have been approved by the IASB. There have been no new standards or interpretations issued during 2021 that significantly impact the Company.

P. Financial Instruments

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

Other financial liabilities

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

Equity instruments

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

Fair values of Non-derivative financial instruments

The fair values of cash and cash equivalents, restricted cash, trade and other receivables and trade and other payables approximate their carrying values due to the relatively short periods to maturity of these instruments.

The fair value of the BDC Financing loans approximate its carrying value as the debt rate floats with prime and is representative of market rates offered to the Company.

At the date of issue, the fair value of the debt components of the convertible debt was estimated using the prevailing market interest rates for similar non-convertible instruments. This amount was recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The fair value of the equity feature of the convertible debt was determined at issue date by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This conversion option is recognized net of income tax effects as equity and is not subsequently re-measured.

Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The Company classifies the fair value of the financial instruments according to the following hierarchy based on the 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 marketplace. The embedded derivatives related to the forced conversion, prepayment and conversion features on the convertible debt are measured based on level 2.

Level 3 – Valuations in this level are those with inputs for the assets or liabilities that are not based on observable market date. The earn-out liability is measured at level 3.

There were no transfers between level 1, 2 and 3 inputs during the year.

Risk management

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

Interest Rate Risk

The BDC Financings, which totalled $3,602 at December 31, 2021, are subject to floating market rates. Based on the floating rate debt outstanding, a 1% increase/decrease in interest rates would result in an increase/decrease in net loss attributable to common shareholders of approximately $27.

Credit Risk

The Company is responsible for reviewing the credit risk for each customer before standard payment and delivery terms and conditions are offered. The Company review consists of external ratings, when available, and in some cases bank and trade references. Management has established a credit policy under which new customers are analyzed for creditworthiness before the Company extends credit. The Company monitors its trade and other receivables aging on an ongoing basis as part of its process in managing its credit risk.

The Company also manages credit risk related to trade and other receivables on a consolidated basis whereby the aggregate exposure to individual customers is reviewed and their credit quality is assessed.

Financial instruments that subject the Company to credit risk consist primarily of cash and cash equivalents, restricted cash and trade receivables. The Company's cash and cash equivalents is held with large established financial institutions. The Company manages credit risk using credit approval and monitoring practices. Management is not materially concerned about the credit quality and collectability of accounts receivables, as our customers are predominantly large in scale and of high creditworthiness, and the concentration of credit risk is limited as our largest customers change year to year depending on which projects are being completed.

Liquidity Risk

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

The table below summarizes the maturity profile of the Corporation's financial liabilities at December 31, 2021, and 2020, based on contractual undiscounted payments.

As at December 31, 2021	**Less than 1 year**	**1 to 2 years**	**2 to 6 years**	**Total**
Trade and other payables	**$ 3,204**	**$ -**	**$ -**	**$ 3,204**
Long-term debt	**877**	**877**	**1,849**	**3,603**
Lease obligations	**578**	**932**	**174**	**1,684**
Convertible debt	**-**	**3,107**	**-**	**3,107**
	$ 4,659	**$ 4,916**	**$ 2,023**	**$ 11,598**

As at December 31, 2020	**Less than 1 year**	**1 to 2 years**	**2 to 6 years**	**Total**
Bank operating loan	$ 129	$ -	$ -	$ 129
Trade and other payables	2,433	-	-	2,433
Long-term debt	1,059	2,411	2,498	5,968
Lease obligations	740	1,177	477	2,394
Earn-out liability	2,128	-	-	2,128
Convertible debt	3,183	-	4,875	8,058
	$ 9,672	$ 3,588	$ 7,850	$ 21,110

Foreign Exchange Risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure relates to balances denominated in US dollars and the operations of its US subsidiary which are predominantly in USD. The Company does not hedge these items as the timing of related transactions is not certain.

As at December 31, 2021, and 2020, the following balances were denominated in USD:

		2021		2020
Cash and cash equivalents	**$**	**945**	$	924
Trade and other receivables	**$**	**2,594**	$	2,219
Prepaid expenses and deposits	**$**	**243**	$	97
Trade and other payables	**$**	**1,825**	$	997
Long term debt	**$**	**2,366**	$	3,533
Finance lease obligations	**$**	**1,109**	$	1,024
Earn-out liability	**$**	**-**	$	1,671
Convertible debt – host debt and derivative liability	**$**	**-**	$	7,493

The Company's primary foreign exchange sensitivity is in relation to movements of the USD against the Canadian dollar. Based on USD balances as at December 31, 2021, a 1% increase/decrease of the USD against the Canadian dollar would result in an increase/decrease in net loss of approximately $73.

Q. Disclosure of Outstanding Share Data

As at December 31, 2021, and November 10, 2021, the following is a description of the outstanding equity securities and convertible securities previously issued by the Company:

	Authorized	**Outstanding as at December 31, 2021**	**Outstanding as at April 13, 2022**
Voting or equity securities issued and outstanding	Unlimited Common Shares	133,939,938 Common Shares	133,939,938 Common Shares
Securities convertible or exercisable into voting or equity securities – stock options	Incentive equity plans up to 10% of outstanding Common Shares	Stock options to acquire 4,075,000 Common Shares at an exercise price at between $0.19 - $0.59	Stock options to acquire 4,075,000 Common Shares at an exercise price at between $0.19 - $0.59
Securities convertible or exercisable into voting or equity securities – Restricted Stock Units ("RSU's")	Incentive equity plans up to 10% of outstanding Common Shares	RSU's to acquire 184,212 Common Shares	RSU's to acquire 184,212 Common Shares
Securities convertible or exercisable into voting or equity securities – share purchase warrants	As approved by the board	Share purchase warrants to acquire 20,067,717 Common Shares at an exercise price at between $0.45 - $0.81	Share purchase warrants to acquire 20,067,717 Common Shares at an exercise price at between $0.45 - $0.81
Unit securities (Broker Warrants) convertible or exercisable into voting or equity securities – units	As approved by the board	The right to acquire 3,739,068 units at prices between $0.40 and $0.65. Each unit is comprised of one common share and a half share purchase warrant	The right to acquire 3,739,068 units at prices between $0.40 and $0.65. Each unit is comprised of one common share and a half share purchase warrant
Convertible debentures convertible into voting or equity securities - units	As approved by the board	$3,589,000 convertible debenture convertible into 8,972,500 units. Each unit consists of one Common Share and a half share purchase warrant to acquire one Common Share at $0.45	$3,589,000 convertible debenture convertible into 8,972,500 units. Each unit consists of one Common Share and a half share purchase warrant to acquire one Common Share at $0.45

R. Outlook

Despite the challenges faced in 2021, primarily due to COVID, management's outlook is remains very optimistic on the future of the Company because of the following:

- No sales were lost by the company during the pandemic as evidenced by our strong backlog; the market continues to grow despite taking longer for projects to go into the ground as evidenced by our strong sales pipeline; and more importantly, the delays in projects going into the ground appears to be coming to an end, according to the majority of our customers;

- Our North American Federal governments have committed hundreds of millions to replacement infrastructure which should add to the company's expected growth its sales across North America;

- We have retained, strengthened and further trained our staff in preparation for the rebound in sales;

- We have significant underutilized equipment capacity to satisfy the rebound in sales and growing markets; and

- The Company made significant strides in improving the financial position of the Company, which has reduced its interest costs significantly and will enable CEMTRIX to accelerate the execution of the Company's strategic plan, including regional expansion in the U.S. and Canada and the pursuit of acquisitions that will complement the company's growth plans, regional expansion and focus on environmentally friendly, cost-effective infrastructure construction solutions.

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

In early 2022, we announced a $4 million USD investment commitment to Glavel, Inc ("Glavel"). Glavel is a foamed glass company operating in the NE USA. Foamed glass is an ultra-light weight material with insulating properties made from recycled glass. Foamed glass competes with or is a complementary product to cellular concrete in certain applications. The Company is excited about the potential for foam glass and views the investment in Glavel as a key step forward in the execution of our growth strategy.

In summary, the company's financial sustainability has increased substantially, as evidenced by our vastly improved balance sheet. The Company continues to announce new project awards to maintain our backlog. We are excited about the addition of Glavel and its foamed glass product to the CEMATRIX family. We remain committed to our strategy and expect to see more of our efforts come to fruition in 2022. We have never been more excited and optimistic about our future.

Appendix A – Forward Looking Statements

The forward-looking statements in the MD&A for the three and twelve months ended December 31, 2021, are outlined below:

General

There are a number of statements in the MD&A which refer to “expect“, “expects”, “expected”, “believes”, “should”, “anticipated” and “will”.

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

Appendix B – Non-IFRS Measures

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

Sales Pipeline:

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

Backlog:

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

Adjusted Net Working Capital:

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

		December 31, 2021		December 31, 2020
Current Assets	**$**	**26,437**	$	8,106
Current Liabilities		**(4,659)**		(15,873)
Net working Capital		**21,778**		(7,767)
Adjustments				
Cash and cash equivalents		**(19,945)**		(2,475)
Restricted cash		**(286)**		(286)
Bank operating loan		**-**		129
Current portion of long-term debt		**877**		1,059
Current portion of lease obligations		**578**		584
Current portion of earn-out liabilities		**-**		2,128
Current portion of convertible debt – host debt and derivative liability		**-**		9,540
Adjusted Net Working Capital	**$**	**3,002**	$	2,912

EBITDA

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

Adjusted EBITDA

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

	Three Months Ended December 31	
	2021	**2020**
Net income (loss)	**$ (1,563)**	$ (7,873)
Finance costs	**189**	387
Depreciation and amortization	**613**	644
Impairment of intangibles	**768**	-
Provision of deferred / current taxes	**(316)**	761
EBITDA	**$ (309)**	$ (6,081)
Unrealized foreign exchange gain (loss)	**(4)**	(228)
Accretion costs	**79**	144
Revaluation of derivatives	**227**	6,192
Revaluation of earn-out liability	**-**	(191)
Non-cash stock based compensation	**91**	10
Adjusted EBITDA	**$ 84**	$ (154)

	Year Ended December 31	
	2021	**2020**
Net income (loss)	**$ (1,855)**	$ (9,776)
Finance costs	**959**	1,550
Depreciation and amortization	**2,486**	2,649
Impairment of intangibles	**768**	-
Provision of deferred / current taxes	**(845)**	201
EBITDA	**$ 1,513**	$ (5,376)
Unrealized foreign exchange gain (loss)	**(162)**	(98)
Accretion costs	**346**	613
Revaluation of derivatives	**(2,495)**	6,130
Revaluation of earn-out liability	**(132)**	(80)
Non-cash stock based compensation	**274**	103
Adjusted EBITDA	**$ (656)**	$ 1,292

Funds Flow from Operations:

Cash generated from (used in) operating activities before net change in non-cash working capital items.

Appendix C – Covenant Calculations

		As at December 31, 2021
CWB Covenants		
CURRENT RATIO		
Formula: Current Assets / Adjusted Current Liabilities		
Current Assets	$	26,437
Current Liabilities		4,659
Current Ratio		**5.67**
Current ratio minimum		1.25
Covenant Met		
DEBT TO TANGIBLE NET WORTH RATIO		
Formula: Adjusted Debt / Adjusted Shareholders Equity		
Total liabilities	$	12,808
Less: convertible debt		(3,107)
Adjusted Total Liabilities		9,701
Total shareholders' equity		31,581
Add: convertible debt		3,107
Adjusted Total Shareholders' Equity		34,688
Debt to Tangible Net Worth		**0.28**
Debt to tangible net worth maximum		1.75
Covenant Met		
CASH FLOW COVERAGE RATIO		
Formula: EBITDA / Total Interest & Principal Repayments		
Adjusted EBITDA	$	(656)
Interest paid		977
Repayment of finance lease obligations		611
Repayment of long-term debt		1,319
Total Interest and Principal Repayment		2,907
Cash Flow Coverage Ratio		**(0.23)**
Cash flow coverage ratio minimum		1.25
Covenant Not Met		