

**CEMATRIX CORPORATION**  
**Management's Discussion and Analysis**  
*Quarter Ended September 30, 2008*

Date Completed: November 24, 2008

**CEMATRIX CORPORATION**  
**www.cematrix.com**

**Form 51-102F1 - Management's Discussion & Analysis**  
**For the Quarter Ended September 30, 2008**

*The following is the management's discussion and analysis ("MD&A") of CEMATRIX Corporation ("CEMATRIX" or the "Company") for the quarter ended September 30, 2008. This MD&A should be read in conjunction with the unaudited financial statements of the Company for the quarter ended September 30, 2008 and related notes thereto and the audited financial statements and MD&A for the year ended December 31, 2007. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All dollar figures included therein and in this MD&A are in Canadian dollars and all dollar figures in this MD&A have been rounded to the nearest 000's.*

*Additional information relevant to the Company's activities can be found on SEDAR at [www.sedar.com](http://www.sedar.com). CEMATRIX is listed on the TSX Venture Exchange (the "Exchange") under the trading symbol "CVX".*

The Audit Committee of the Company has reviewed and recommended for approval by the Board of Directors of the Company the interim financial statements and MD&A for the quarter ended September 30, 2008 and the Board of Directors has reviewed and approved them.

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## **A. Forward Looking Statements**

Except for historical information, all statements made in this MD&A may contain forward-looking statements. Forward looking statements are based on current expectations and assumptions that involve a number of risks and uncertainties, certain of which are beyond the Company's control and could cause actual events or results to differ materially from those reflected in the MD&A. Forward-looking statements are based on the estimates and opinions of the Company's management at the time the statements were made. These forward looking statements typically contain the words "anticipate", "believe", "estimate", "intend", "expect", "may", "will", "should", or other similar terms.

All such forward looking information is based on certain assumptions and analysis made by management in light of experience, perception of historical trends, current conditions and expected future developments, as well as other factors management believed to be appropriate in the circumstances. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond the Company's control, including but not limited to the following:

1. changing domestic economic conditions including, but not limited to the possible effects of the new Alberta royalty program and proposed environmental policies for the construction industry, specifically the planned developments in the oil sands, including refinery construction;
2. changing international industry and economic conditions including the affects, if any, of a potential recession in the United States and/or Canada;
3. the volatility of prices, specifically oil prices and the key raw materials used in producing the Company's cellular concrete products, that being cement and flyash;
4. the availability of raw materials, specifically cement and flyash given the high demand for these products in Western Canada;
5. the supply of skilled labour in a market where such labour is in demand by most sectors of business and industry;
6. the impact of competitive products, specifically rigid insulations and other insulating products as used in construction applications;
7. cellular concrete applications continue to be developed in the Company's markets which makes upside demand difficult to predict; and
8. the timely commencement of projects by customers as planned.

As a result of such forward looking information, no assurance can be given that any of the events anticipated by the forward-looking information will transpire; or if any of them do so, what benefits will be derived there from. Based on this, actual results may differ materially from those projected, or implied herein. The Company assumes no obligation to update forward-looking statements, should circumstances or management's estimates change, except as required by securities law. In addition, the reader is cautioned that historical results are not necessarily indicative of future performance.

The information contained in this MD&A is expressly qualified by this cautionary statement.

## **B. Corporate Overview**

CEMATRIX was incorporated on March 22, 2005 under the *Business Corporations Act* (Alberta) as "Moonshoot Capital Corp". By a Certificate of Amendment issued on May 31, 2006, the Company's name was changed to "CEMATRIX Corporation".

Through its wholly-owned subsidiary, CEMATRIX (Canada) Inc. ("Old CEMATRIX"), the Company is a manufacturer and supplier of technologically advanced cellular concrete products with applications in a variety of markets, currently focusing on the oil and gas construction and infrastructure 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 its main use is the replacement of rigid and other types of insulation, however there are many other uses including the stabilization or replacement of weak or unstable soils.

### **C. Recent developments**

1. At the annual general meeting held on July 28, 2008 four new directors were added to the Board of Directors of CEMATRIX to replace three directors who had resigned to make way for the new members. These new directors include Mr. Robert L. Benson, P.Eng; Mr. Stephen Bjornson, C.A.; Mr. Patrick Breen and Mr. Dan Koyich;
2. During the quarter, the Corporation announced, by way of press release, new projects with a sales value of \$8.3 million bringing the total dollar value of new projects announced during 2008 to \$9.0 million;
3. Subsequent to the quarter end, the Company announced that it had hired a new Chief Financial Officer, Mr. Bruce McNaught, C.A., and that he would assume this position on December 1, 2008.

### **D. Operations and Overall Performance**

The Company's results for the quarter ended September 30, 2008 were lower than that what was achieved in the same period the previous year. This result is consistent with the results on a year to date basis, as well. On a quarterly basis and year to date basis the Company has poured fewer cubic metres than it did for the same period in 2007, however the Company has seen a more balanced expansion of its Alberta market in 2008. This expansion is measured by the number of significant projects either completed or underway for the first three quarters of 2008 as compared to the same period the previous year.

In the first three quarters of 2008, six contracts/projects made up 75% of the total sales and not one of those projects exceeds 21% of the total sales during the period. In 2007, two projects, represented 75% of the sales for the three quarters ended September 30, 2007 and one of the projects represented 85% of 75% of the sales for that period. The landing and completion of a significant project in 2007 with a sales value of \$3,996,000 for the first three quarters of that year ended December 31, 2007 was a strong step for the Company, but the continued market growth during the same period in the current year represents a more balanced development of the market.

#### **Results of Operations:**

##### **Quarter ended September 30, 2008**

The Company's revenue is generated from the sale of cellular concrete and 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 continues to be "one-off" type sales, meaning there is little in the way of carry over in sales from year to year; except to the extent that the Company has repeat business related to a specific application or location.

Total revenues for the quarter ended September 30, 2008 were \$2,514,000 as compared to \$3,117,000 for the quarter ended September 30, 2007. This 19.3% decrease in revenues is due mainly to the size and nature of projects completed in 2008 as compared to those projects completed in 2007. In the third quarter of 2008, the Company commenced and/or completed a greater number of projects than it completed during the same period the previous year; however, the combined volumes of these projects was less than the volume poured on one single large project in 2007.

Actual volumes processed during the current quarter were 32.2% lower than the volume processed in the same quarter in the previous year.

The effect of the volume decrease on sales was offset partially by a 19.2% increase in the average price per cubic metre achieved during the third quarter of 2008, as compared to the same quarter in the previous year. The increase in the average price per cubic metre was due to the nature of the projects undertaken during both quarters. In the third quarter of 2008, there were a larger number of projects completed; which because of their lower volume requirements, type of application and method of production, cost more per cubic metre to process and, accordingly, garnered a higher average price per cubic metre. During the same quarter in the previous year the Company was generally working on one large volume project, that cost less per cubic metre to produce, due to the economies of scale achieved and the method of production, and accordingly, the price per cubic meter for that project was lower than what was achieved during the current quarter ended September 30, 2008.

Gross margins on sales generated during the third quarter of 2008 were \$962,000, which is a \$322,000 decrease from the margin generated in the same period the previous year of \$1,284,000. The lower margins are the result of the decrease in volumes sold, combined with higher operational costs, offset partially by an increase in the average price per cubic metre.

Total expenses for the quarter ended September 30, 2008 were \$540,000 as compared to \$520,000 for the same period the previous year. This \$20,000 or 3.8% increase in expenses includes year over year general price increases; however there were also several changes in various expense categories as follows:

1. Finance costs decreased by \$10,000, which is mainly due to lower operating line usage and a lower average prime rate;
2. General and administrative expenses decreased by \$55,000, which is mainly due to bonuses earned in 2007 from year to date profits earned in 2007; a situation that does not exist for the third quarter ended September 30, 2008;
3. Sales, marketing and engineering costs increased by \$128,000, which is mainly due the following:
  - a. the addition of sales and technical staff, which includes a contract eastern Canadian salesperson, a U.S. salesperson and an additional salesperson for Alberta;
  - b. new marketing programs including the development of a CD for marketing purposes and barbecue/demonstration events held in Calgary and Edmonton for its customers and potential customers; and
  - c. recruiting costs;
4. Stock based compensation expense decreased by \$16,000 as the 600,000 new options issued to directors during the third quarter in 2008 vested over three years resulting in a lower charge to income for the current year, while the 150,000 options issued during the same period the previous year carried no vesting requirements, resulting in a higher charge to income for that period; and
5. Amortization of property, plant and equipment decreased by \$28,000, which is mainly due to the decrease in the amortization of research and development costs capitalized in prior years. The Company has not capitalized any of its ongoing research and development since the year ended December 31, 2006.

The net income for the quarter ended September 30, 2008 is \$421,000 as compared to the \$764,000 net income generated in the third quarter of 2007.

#### **Year to Date – Nine months ended September 30, 2008**

Total revenues for the nine months ended September 30, 2008 amounted to \$3,988,000, which is a 36.4% decrease in revenues from the same period the previous year of \$6,267,000. The decrease in revenues was mainly related to a 45.8% decrease in volumes processed during the period.

Although the number of projects sold and processed during the period increased from that of the same period in the previous year, the total volume of cubic metres processed during the period ended September

30, 2008 did not match the total number of cubic metres processed for one single large project completed during the second and third quarters of the previous year.

The decrease in revenues associated with the lower volumes was partially offset by a 17.0% increase in the average price per cubic meter sold during the period.

Gross margins for the nine months ended September 30, 2008 were \$1,174,000, which is a 48.1% decrease from the total margin of \$2,264,000 generated during the same period the previous year. The decrease in margins is mainly due to the reduction in volumes processed and the resulting lower coverage of the fixed costs associated with maintaining the operations during this period.

Total expenses for the nine months ended September 30, 2008 were \$1,455,000, as compared to \$1,415,000 for the same period the previous year. This \$40,000 or 2.8% increase in expenses includes year over year general price increases; however there were also several changes in various expense categories as follows:

1. Finance costs decreased by \$24,000, which is mainly due to lower operating line usage and a lower average prime rate;
2. General and administrative expenses decreased \$51,000, which is mainly due to decreases in insurance, legal and professional, relocation costs, and corporate bonus expense; the decreases of which were offset in part by increase in costs associated with the new larger operating facility occupied by the Company in April of 2008;
3. Sales marketing and engineering costs increased by \$275,000, which is mainly due the following:
  - a. the addition of sales and technical staff, which includes a contract eastern Canadian salesperson, a U.S. salesperson and an additional salesperson for Alberta;
  - b. new marketing programs including the development of a CD and barbecue/demonstration events held in Calgary and Edmonton for its customers and potential customers;
  - c. recruiting costs; and
  - d. third party testing costs of the Company's products;
4. Stock based compensation expense decreased by \$74,000 as the 600,000 new options issued to date vested over three years resulting in a lower charge to income for the current year, while 550,000 of the 850,000 options issued during the same period the previous year carried no vesting requirements, resulting in a higher charge to income for that period; and
5. Amortization of property, plant and equipment decreased by \$87,000, which is mainly due to the decrease in the amortization of research in development costs incurred in prior years. The Company has not capitalized any of its ongoing research and development since the year ended December 31, 2006.

Of note, due to a change in classification of expenses made by the Company in 2007, certain of the comparative numbers have changed in 2007 from that reported in the MD&A for the nine months ended September 30, 2007. The accounts affected were cost of sales and general and administrative expenses; with cost of sales for the first nine months being increased and general and administrative expenses being decreased by \$109,000 respectively. The change was made to better reflect the all-in costs of sales approach maintained by the Company and had no effect on the results for the quarter ended September 30, 2008.

## **E. Selected Financial Information and Summary of Financial Results**

### **General**

On April 11, 2006, the Company acquired one hundred percent of the issued and outstanding shares of CEMATRIX (Canada) Inc., as its qualifying transaction. Accordingly, the financial statements prior to the acquisition reflect those of CEMATRIX (Canada) Inc., the Company's wholly-owned operating subsidiary.

The consolidated financial statements are issued under the name of the legal parent, but are deemed to be a continuation of the legal subsidiary. As a result, the comparative consolidated balance sheets, statements of income (loss) and comprehensive income and the statement of cash flows for the periods up to June 30, 2006 are those of Old CEMATRIX. Likewise, the earnings per share for comparative periods have been computed by dividing the total earnings by the number of shares issued in the reverse takeover transaction.

### Quarterly Results

Due to the seasonal nature of the Company's business, which typically follows the construction season in Western 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.

Management considers the remaining portion of the year to be the Company's off season due to constraints caused by winter and spring weather conditions. Management expects this trend to continue, even though the Company is pursuing other markets where seasonality is less of an issue.

The nature of the Company's sales will also continue to result in quarterly fluctuations in revenues, net income (loss) and earnings per share. As an example, during the second and third quarters of 2007, the Company sold and processed a large volume project, which skewed the results for those two quarters as compared to the previous years and current year's results for the same period. Management expects these types of projects to become more common as the Company's business and markets continue to develop; which could result in unusual fluctuations in quarterly results, particularly if the timing of these projects are during what would normally be considered the Company's off season.

The effects of the seasonality and the large volume project in 2007 are reflected in the quarterly results summarized in the table below.

<b>Quarters Ended</b>	<b>Total Revenues</b>	<b>Net Income (Loss) Total *</b>	<b>Per Share Basic</b>	<b>Per Share Diluted</b>
	\$	\$	\$	\$
<b>2008 Year</b>				
<b>September 30, 2008</b>	<b>2,514,000</b>	<b>421,000</b>	<b>0.010</b>	<b>0.010</b>
June 30, 2008	1,249,000	(156,000)	(0.005)	(0.004)
March 31, 2008	225,000	(540,000)	(0.016)	(0.013)
 2007 Year				
December 31, 2007	1,228,000	(39,000)	0.000	0.000
September 30, 2007	3,117,000	764,000	0.023	0.019
June 30, 2007	2,382,000	275,000	0.008	0.007
March 31, 2007	768,000	(190,000)	(0.006)	(0.005)
 2006 Year				
December 31, 2006	1,100,000	100,000	0.004	0.004
September 30, 2006	439,000	(215,000)	(0.010)	(0.010)
June 30, 2006	234,000	(583,000)	(0.025)	(0.024)
March 31, 2006	603,000	(213,000)	(0.009)	(0.009)

### F. Liquidity and Capital Resources

On September 30, 2008, the Company had consolidated working capital of \$1,691,000, which is a \$213,000 decrease from the consolidated working capital of \$1,904,000 at December 31, 2007. The decrease is primarily due to the use of cash to finance the Company's working capital shortfall during the first three quarters of 2008.

Of note, the Company has reclassified the full amount of the loan from the Agriculture Financial Services Corporation as a current obligation for the quarter ended September 30, 2008 and the year ended December

31, 2007, even though, it is the intention of management to renew this loan in December of 2008 for an additional two years, as contemplated within the original loan agreement.

The Company's bank operating utilization at September 30, 2008 was \$Nil (September 30, 2007 - \$655,000).

Based on projects under contract and forecasted, Management anticipates that it will have sufficient working capital in place to facilitate the continued growth of the Company.

During the third quarter ended September 30, 2008, the Company incurred \$5,000 (2007 - \$19,000) in capital expenditures. Total capital expenditures for the three quarters ended September 30, 2008 amounted to \$286,000, of which \$239,000 were financed by way of capital lease. It is the Company's practice to date, to finance qualifying capital acquisitions through capital leases and or bank financing and to finance others with cash. One of the assets (portable silo) acquired during the second quarter of 2008 and financed by way of a capital lease was sold during the third quarter for proceeds of \$50,000, which resulted in a gain on sale of fixed assets of \$1,000. The proceeds were applied to reduce the capital lease related to that equipment.

In order to better service its customers and facilitate the current and expected growth, the Company entered into a five year lease on a new premises commencing April 1, 2008. The new facility provides the Company with 18,750 square feet of warehouse space, a two and one half acre secured yard and 4,000 square feet of office space. This is a significant move up from the 6,900 square feet of combined office and warehouse space utilized for the past five years and is projected to meet the Company's needs for the foreseeable future.

#### **G. Continued Key Risks and Uncertainties**

The risk and uncertainty factors affecting the Company in the future remain substantially unchanged from those included in the Company's annual MD&A for the year ended December 31, 2007 except as follows:

The uncertainty with some of the factors has been exasperated by the recent deterioration in the world economy. Falling oil prices and the evidence of a U.S. and broader worldwide recession will impact the environment in which the Company operates. Projects may get delayed or cancelled or credit conditions may impact the availability of funds to expand the business. To date the Company has experienced some project delays. The Company will continue to monitor the situation and position itself to deal with this challenging business environment.

#### **H. Transactions with Related Parties**

During the quarter, the Company incurred legal fees from a firm in which two of its partners are former directors of the Company in the amount of \$10,000 (September 30, 2007 - \$5,000). Included in accounts payable at September 30, 2008 is \$13,000 (December 31, 2007 - \$15,000) relating to these transactions. These transactions are in the normal course of business and are recorded at their exchange amount.

In the daily operation of the Company's business, shareholders who are employees of the Company incur expenses on behalf of the Company. Accordingly, the Company's accounts payable includes wages and other amounts payable or reimbursable to employees and contractors who are shareholders of \$Nil (December 31, 2007 - \$Nil). These amounts, which are less than \$500 in total, and therefore rounded to \$Nil represent reimbursements for expenses paid on behalf of the Company, are in the normal course of business and are recorded at their exchange amount.

## **I. Changes in Accounting Policies including Initial Adoption New Accounting Standards adopted**

- (a) Effective January 1, 2008, the Company adopted the CICA issued Handbook Section 1535, “Capital Disclosures”. This standard requires that an entity disclose information that enables users of its financial statements to evaluate an entity’s objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Company. As this standard only addresses disclosure requirements, there was no impact to the Company’s financial statements.
- (b) Effective January 1, 2008, the Company adopted the CICA issued Handbook Sections 3862 and 3863 to replace Section 3861, “Financial Instruments - Disclosure and Presentation”. This standard requires an increased emphasis on disclosures about the nature and extent of risk arising from financial instruments and how an entity manages those risks. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Company. As this standard only addresses presentation and disclosure requirements, there was no impact to the Company’s financial statements.
- (c) Effective January 1, 2008, the Company adopted the CICA issued Handbook Section 3031, “Inventories” to harmonize accounting for inventories under Canadian GAAP with International Financial Reporting Standards. This standard requires the measurement of inventories at the lower of cost and net realizable value and includes guidance on the determination of cost, including the allocation of overheads and other costs to inventory. This standard requires the allocation of fixed production overheads to the costs of conversion to be based on the normal capacity of the production facilities. The standard also requires the consistent use of either first-in, first-out (FIFO) or weighted average cost formula to measure the cost of other inventories and requires the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, specifically January 1, 2008 for the Company. The adoption of this Section did not have an impact on the Company’s financial statements.

## **New Accounting Standards not yet implemented**

- (a) The CICA issued Handbook Section 3064, “Goodwill and Intangible Assets”, which will be adopted by the Company, effective January 1, 2009. The new Section replaces Section 3062 “Goodwill and Other Intangible Assets” and Section 3450, “Research and Development Costs”. Section 1000, “Financial statement Concepts” was also amended according to Section 3064. This new Section establishes standards for recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented companies. The Company is presently assessing the impact of this new accounting standard on its consolidated financial statements.
- (b) In April 2008, the CICA published the exposure draft “Adopting IFRSs in Canada”. The exposure draft proposes to incorporate IFRSs into the CICA Handbook effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. On this date, the Company will be required to prepare financial statements in accordance with IFRSs. The Company is currently reviewing the standards to determine the potential impact on its consolidated financial statements.

## **J. Outlook**

Even though the current world economic situation is beginning to have a negative effect on the Alberta oil and gas market and other markets, CEMATRIX's management expects continued sales growth over the long term, subject to annualized variations due to continuing market growth and the challenges associated with customers' project timing. The reasons for this expectation are as follows:

1. CEMATRIX's products are being specified as a replacement for other materials, particularly rigid insulations, in more and more projects in Alberta, because of cost and placement time savings over these other products. This is expected to generate continued growth for applications in projects that are not delayed or put on hold; and
2. CEMATRIX had commenced the development of other infrastructure markets in eastern Canada and the United States earlier this year, and it is expected that this new market development will generate new sales in these new markets, beginning in 2009; particularly since history has shown that governments tend to spend more on infrastructure during periods of slow economic growth.

As a result, the projected growth in new markets is expected to reduce the effect of the economic slowdown on the company's sales growth.