# CEMATRIX CORPORATION

**Management's Discussion and Analysis**

*Three Months Ended March 31, 2017*

Date Completed: May 3, 2017

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

## Form 51-102F1 - Management's Discussion & Analysis
## For the Three Months Ended March 31, 2017

*The following is the management's discussion and analysis ("MD&A") of CEMATRIX Corporation ("CEMATRIX" or the "Company") for the three months ended March 31, 2017. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements of the Company for the three months ended March 31, 2017 (the "Interim Consolidated Financial Statements") and the related notes thereto and the audited consolidated financial statements and MD&A of the Company for the year ended December 31, 2016 and related notes thereto. The Interim Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards. All dollar figures included therein and in this MD&A are in Canadian dollars.*

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

On May 3, 2017 the Audit Committee of the Company reviewed and recommended for approval by the Board of Directors of the Company the Interim Consolidated Financial Statements and MD&A for the three months ended March 31, 2017. The Board of Directors of the Company reviewed and approved the Interim Consolidated Financial Statements and MD&A on May 3, 2017.

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**Forward Looking Statements**

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

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

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

The Company has discussed, in Section D. – Key Market Drivers and in Section E. - Key Risks and Uncertainties of its MD&A for the year ended December 31, 2016, 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. These factors remain substantially unchanged as of the date hereof. 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 three months ended March 31, 2017, the Company's financial condition as at March 31, 2017 and its future prospects.

## B. First Quarter Highlights

- First quarter sales of $2,527,471 were down 20.3% compared to the same period in 2016 but infrastructure sales increased to $2.5 million as compared to $1 million in the same period of the previous year. The growth in the infrastructure market is key to the Company's future. As the infrastructure market matures and grows it will be significantly more stable and consistent than the oil and gas market.

- Total contracted work to date in 2017 is $7.9 million, all of which is currently scheduled for completion in the first half of the year.

- The Company expanded its relationship with Lafarge/Holcim ("Lafarge") with the execution of additional five year agreements to promote the regional development of CEMATRIX cellular concrete and Ready Mix sales of Lafarge in regions where Lafarge has a physical presence and CEMATRIX does not.

## C. Report on Major Initiatives

*Growth in Sales Pipeline:*
The Company's Sales Pipeline is now in excess of $137 million for potential projects scheduled to commence in 2017 and beyond. Of this amount $88 million is for potential projects currently scheduled for 2017. However, as the Company experienced in 2016 and prior years, CEMATRIX has no control over when the actual work is scheduled by its customers. The current Sales Pipeline is before our normal marketing cycle, which has just began in earnest, and any positive effect on new sales as a result of the Lafarge agreements.

*Agreements with Lafarge:*
The Company is working closely with Lafarge to develop opportunities under the joint marketing agreement. A number of potential projects have been identified by both parties and work continues to turn these into contracted sales.

The Company has moved a wet mix unit, together with supporting equipment and supplies, to the region that Lafarge and CEMATRIX identified as the first opportunity under the regional cellular concrete development program. Lafarge staff at this location have been trained on the various CEMATRIX cellular concrete applications and will be seeking new sales over the coming months. Both parties continue to consider the timing and location of further regional expansions in Canada.

*Research Projects:*
The testing related to the expanded use of CEMATRIX cellular concrete as an approved light weight fill material for mechanically stabilized earth ("MSE") panel construction projects is well underway. The test results on the various properties of Cematrix cellular concrete, such as permeability, sulfate resistance, thermal conductivity etc., are now essentially completed and the test results are being analyzed. The pull out testing is also underway. The MSE panel market is significant in Canada and the U.S. as often, as part of this process, a light weight material is required to be placed behind the panels. CEMATRIX cellular concrete is well suited for these applications. The total estimated cost of this program, which is forecasted to be completed by the end of 2017, is approximately $305,000, of which the National Research Council has agreed to fund $122,500 through their industrial research assistance program.

The research with the University of Waterloo's civil engineering department is underway. This project will involve the University of Waterloo, The Ministry of Transportation of Ontario, CEMATRIX and the

Federal Government at a test facility near Waterloo, Ontario. It will involve pouring CEMATRIX cellular concrete for road bases with pavement structures at different densities to be monitored over three years. The purpose is to develop road bases that will last longer as well as monitoring the effect on utilities buried beneath the road systems. Positive results from this study will lead to CEMATRIX cellular concrete to be specified into road construction projects in Ontario and other provinces. CEMATRIX's cost of the three-year program will be approximately $270,000 spread over three years.

**D. Results of Operations for Quarter Ending March 31, 2017**

| | | Three Months Ended March 31 | | | | |
|---|---|---|---|---|---|---|
| | | **2017** | | 2016 | | Change |
| Revenue | $ | **2,527,471** | $ | 3,170,689 | $ | (643,218) |
| Gross margin | $ | **534,685** | $ | 730,146 | $ | (195,461) |
| Operating expenses | | **(523,676)** | | (597,533) | | 73,857 |
| Operating income | | **11,009** | | 132,613 | | (121,604) |
| Non-cash stock based compensation | | **(28,409)** | | (24,079) | | (4,330) |
| Finance costs | | **(50,521)** | | (72,396) | | 21,875 |
| Oher income | | **1,887** | | 9,136 | | (7,249) |
| Income (loss) before income taxes | | **(66,034)** | | 45,274 | | (111,308) |
| Recovery (provision) of deferred taxes | | **13,639** | | (48,223) | | 61,862 |
| Loss attributable to the common shareholders | | **(52,395)** | | (2,949) | | (49,446) |
| Unrealized foreign exchange gain (loss) on translation of foreign subsidiary | | **536** | | (19,538) | | 20,074 |
| Total comprehensive loss for period | $ | **(51,859)** | $ | (22,487) | **$** | (29,372) |
| Loss per common share | $ | **-** | $ | - | $ | - |

| | | | | | | |
|---|---|---|---|---|---|---|
| Revenue | | | | | | |
| Infrastructure | | | | | | |
| Western Canada | **$** | **1,757,278** | $ | 602,552 | $ | 1,154,726 |
| Eastern Canada | | **743,386** | | 354,290 | | 389,096 |
| United States | | **-** | | - | | - |
| | | **2,500,664** | | 956,842 | | 1,543,822 |
| Oil and Gas | | **26,807** | | 2,213,847 | | (2,187,040) |
| | **$** | **2,527,471** | $ | 3,170,689 | $ | (643,218) |

The revenue was lower by 20.3% or $643,218. Oil & gas sector sales were down $2,187,040, or 98.8%, as a result of work in the same period of 2016 on two large oil sands and refinery related construction projects in Alberta which generated sales of $2,148,667 in 2016. Infrastructure sales were up $1,543,822, or 161.4%, with the increase occurring from portions of two large tunnel projects in Western and Eastern Canada in 2017 and no comparable sales during the same period in 2016. There were no U.S. sales in either period.

The Gross Margin on sales was lower by $195,461, or 26.8%. The Gross Margin Percentage achieved of 21.2% compared to 23% in 2016. The decrease in the Gross Margin dollars was mainly due to the decrease in revenue. The Gross Margin Percentage in both periods were negatively affected by winter construction costs, equipment repair work that is carried out during this period and the fact that sales volume was not yet at a level to fully absorb the fixed costs of operations.

Operating Expenses were lower by $73,857 or 12.4% due to the aggregate of the following:

- Salaries and benefits were down $46,150 due to management and salaried staff taking a 10%-20% salary reduction effective January 1, 2017;

- Salaries of $12,300, within Operating Expenses, were capitalized on research projects in 2017; there was no similar program in 2016; and

- Other costs were down by $15,407 due mainly to cost constraints introduced in 2017.

Non-cash stock based compensation was up by $4,330, or 18%, as a result of the timing of vesting of issued stock options. Under IFRS rules, the associated non-cash stock based compensation related to stock options has to be expensed based on the vesting privileges of the particular option grants.

Finance costs were down $21,875, or 30.2%. The decrease was principally due to lower interest with the demand operating loan which was put in place in April 2016 with the Canadian Western Bank (“CWB”) to replace previous high cost working capital financing, including factoring.

Other income was down $7,249; in 2017 other income consists of a gain on sale of equipment of $2,300 and foreign exchange expense of $413; in the same period of 2016 other income consisted of foreign exchange income of $9,136.

The change in deferred income taxes was a positive $61,862. In 2017 a deferred income tax recovery of $13,639 was recorded as compared to a deferred income tax provision of $48,223 in 2016. The change is due to weaker results of the Canadian operations in comparison to the same period in 2016.

Unrealized Foreign Exchange Loss on Translation of Foreign Subsidiary was higher by $20,074, as a result of the continued strength of the U.S. dollar to the Canadian dollar and changes in the levels of the assets, liabilities, revenues and expenses of the U.S. subsidiary between the two periods.

The total comprehensive loss was higher by $29,372. This was due to lower gross margin due to the reduction in sales as partially offset by lower operating and finance costs.

**E. Selected Quarterly Financial Information**

Due to the seasonal nature of the Company’s business, which typically follows the construction season in Canada, a significant portion of the Company’s sales occur between the latter part of the three months ended June 30 and the first half of the three months ended December 31, on an annual basis. In the both of the three month period ended March 31, 2017 and 2016 the Company benefitted from contracted projects carried over from the previous years. 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 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **2017 Year** | | | | |
| **March 31** | **2,527,471** | **(51,859)** | **-** | **-** |
| 2016 Year | | | | |
| March 31 | 3,170,689 | (22,487) | - | - |
| June 30 | 2,755,072 | (148,119) | (0.004) | (0.004) |
| September 30 | 2,505,273 | (392,581) | (0.011) | (0.011) |
| December 31 | 1,167,827 | (534,405) | (0.016) | (0.015) |
| Total for year | 9,598,861 | (1,097,592) | (0.031) | (0.031) |

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

**F. Consolidated Statement of Financial Position**

| | | **March 31 2017** | | December 31 2016 | | Change |
|---|---|---|---|---|---|---|
| Total current assets | **$** | **4,598,590** | $ | 2,865,927 | $ | 1,732,663 |
| Total non current assets | | **4,769,066** | | 4,709,905 | | 59,161 |
| Total Assets | **$** | **9,367,656** | $ | 7,575,832 | $ | 1,791,824 |
| Current liabilities | **$** | **2,498,905** | $ | 879,700 | $ | 1,619,205 |
| Non current liabilities | | **2,319,976** | | 2,123,907 | | 196,069 |
| Total liabilities | **$** | **4,818,881** | $ | 3,003,607 | $ | 1,815,274 |
| Shareholders' equity | **$** | **4,548,775** | $ | 4,572,225 | $ | (23,450) |

Total current assets increased by $1,732,663. This increase in aggregate is summarized below:

- Cash in the bank was down $38,303 (See the discussion in Section G - Consolidated Statement of Cash Flows);

- Trade and other receivables were up by $1,715,486 as a result of the higher sales in the first quarter of 2017 in comparison to the fourth quarter of 2016 combined with timing differences in the collection of trade receivables;

- Inventory was up $61,669 due to the purchase of additional foaming agent for the upcoming construction season as partially offset by normal usage in the production process;

- Prepaids and deposits were down $7,479; mainly due to timing differences on certain items in 2017 as compared to the 2016 year end balances; and

- Current portion of share acquisition loans was up $1,290 due to the accretion of the fair value adjustment.

Total non current assets increased by $59,161. This increase in aggregate is summarized below:

- Property and equipment was up $2,728 - additions to property and equipment were $133,443; this was partially offset by depreciation expense for the three months ended March 31, 2017 of $130,715;

- Intangibles were up $42,794; spending on project testing was $58,794 (including $15,555 of capitalized labour); this was partially offset by funds receivable from government grants of $16,000; and

- The deferred tax asset was up by $13,639 as a result of recording a recovery of deferred tax on Canadian losses during the three months ended March 31, 2017.

Total current liabilities increased by $1,616,205. This increase in aggregate is summarized below:

- Bank overdraft was up by $177;

- Demand operating loan was up $287,886 to fund working capital requirements;

- Trade and other payables were up $1,314,622 principally due to increased business activity in the three month ended March 31, 2017 as compared to the three months ended December 31, 2016;

- Current portion of long term debt was up $19,360; the increase is due to the current portion of the new BDC loan 5 of $100,000 entered into in March 2017; repayments for the BDC loans run from July to December; and

- Current portion of finance lease obligations was down $2,840 due to scheduled repayment of $14,111 as offset by the reclassification from the long term portion of $11,271.

Total non current liabilities increased by $196,069. This increase in aggregate is summarized below:

- Long term debt was up $207,340 with new BDC loans of $226,700 less the reclassification to current portion of $19,360; repayments for the BDC loans run from July to December; and

- Finance lease obligations were down $11,271 due to reclassification to current portion in the three months ended March 31, 2017 (see comment above).

Shareholders' Equity decreased by $23,450. This increase in aggregate is summarized below:

- Contributed surplus increased by $28,409 of non-cash stock based compensation recorded in the three months ended March 31, 2017;

- Accumulated other comprehensive loss increased by $536 due to the unrealized foreign exchange loss on translation of the Company's U.S. subsidiary in the three months ended March 31, 2017; and

- The Deficit increased by $52,395 due to the loss to common shareholders in the period.

See the Consolidated Statements of Shareholders' Equity included in the Interim Consolidated Financial Statements at March 31, 2017.

**G. Consolidated Statement of Cash Flows**

The cash position of the Company at March 31, 2017 was $12,653 (consisting of cash in the bank of $46,031 net of the bank overdraft of $33,378) compared to a cash position of $51,133 (consisting of cash in the bank of $83,334 net of the bank overdraft of $33,201) at December 31, 2016.

The change in the cash position from the December 31, 2016 and 2015 to the three months ending March 31, 2017 and 2016 was a decrease of $38,480 in 2017 as compared to a decrease of $672,334 in the same period of 2016. This change is outlined in the table below:

| | Three Months Ended March 31 | | |
|---|---|---|---|
| | **2017** | 2016 | Change |
| Cash generated from (used in) operating activities | | | |
| Before non-cash working capital adjustment | **$ 89,500** | $ 182,730 | $ (93,230) |
| Net change in non-cash working capital items | **(455,054)** | 151,216 | (606,270) |
| | **(365,554)** | $ 333,946 | $ (699,500) |
| Cash used in investing activities | **(189,937)** | (59,482) | (130,455) |
| Cash generated from (used in) financing activities | **516,475** | (927,260) | 1,443,735 |
| Foreign exchange effect on cash | **536** | (19,538) | 20,074 |
| Decrease in cash | **(38,480)** | (672,334) | 633,854 |
| Cash, at beginning of period | **51,133** | 1,450,785 | (1,399,652) |
| Cash, at end of period | **$ 12,653** | $ 778,451 | $ (765,798) |
| | | | |
| Cash, at end of period | | | |
| Cash and cash equivalents | **$ 46,031** | $ 778,451 | $ (732,420) |
| Bank overdraft | **(33,378)** | - | (33,378) |
| | **$ 12,653** | $ 778,451 | $ (765,798) |

- Cash generated from operating activities decreased by $699,500.

  - The cash flow, before non cash working capital adjustments, decreased by $93,230. The decrease was due to the reduction in income before taxes of $111,308 combined with a higher addback of non-cash items of $18,078, due primarily to higher depreciation resulting from the a new wet mix unit going into service in October 2016; and

  - The net change in non-cash working capital items decreased by $606,270 due primarily to the level of trade receivables generated in the respective periods and the timing of their collection.

- Cash used in investing activities increased by $130,455.

  - Plant and equipment purchases were up $73,961;

  - Proceeds on the sale of equipment were $2,300 in 2017 with no comparable amount in 2016; and

  - Spending on research programs was $58,794 in 2017 with no comparable amount in 2016.

- Cash generated from financing activities increased by $1,443,735.

  - In 2017 the Company generated $516,475 from financing activities; the demand operating loan provided $287,886; new long term debt provided $226,700 and government grants for the project testing programs provided $16,000; scheduled repayments of $14,111 were made on finance lease obligations.

  - In 2016 the Company used $927,260 in financing activities; cash collected on trade receivables that had been factored at December 31, 2015 was used to repay the factoring liability of $703,462; cash was used to make a payments of $250,000 on the mezzanine loan and scheduled repayments of $18,798 on finance lease obligations; and cash was received from the issue of common shares for $45,000 on the exercise of stock options by The Howard Group, the Company’s investor relations firm.

**H. Liquidity, Capital Resources and Commitments**

*Liquidity*

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

At March 31, 2017, the Company had Net Working Capital of $2,654,201, up from $2,199,147 at December 31, 2016, reflecting the increase in activity in the first quarter of 2017 as compared to fourth quarter of 2016.

For the three months ended March 31, 2017, the Company reported a loss of $37,625, before taxes and non-cash stock based compensation, cash from operations of $89,500, before the non-cash working capital adjustment, and EBITDA of $143,611.

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

As of this date the Company has signed contracts on hand for $7.9 million, all of which is currently scheduled for completion in the first half of 2017, and has a number of other contracts in process.

In April 2017 the Company collected a large holdback of $820,000 which will be used to support operating cash flows.

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

*Capital resources*

Capital additions to build new productive capacity in the current year will come from the funds generated from operations and the BDC loan 4, which has $373,300 remaining to be drawn down.

Building additional productive capacity in future years is dependent on the Company generating the required funds from operations or new debt or equity financing. There is no certainty that additional debt or equity financing will be available to the Company.

The Company defines its capital as the long term debt, the finance lease obligations and shareholders' equity. The current objective of the Company is to manage its capital through growth in earnings and to re-invest the earnings generated to facilitate the continued growth in the Company, in order to provide an appropriate rate of return to shareholders in relation to the risks underlying the Company's assets. The consolidated capital of the Company, as outlined in Note 22 - Capital management to the Interim Consolidated Financial Statements, was $7,246,793 at March 31, 2017 as compared to $7,057,654 at December 31, 2016 (see Section E. Consolidated Statements of Financial Position for details).

*Commitments*

The following is a summary of the Company's lease and debt obligations and commitments for the next five years from March 31, 2017.

| Debt Category | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Finance lease obligations (1) | 87,511 | 56,156 | 107,567 | 5,065 | 726 |
| BDC Financing (2) (3) | 303,822 | 349,142 | 390,462 | 241,688 | 94,800 |
| Secured Debenture (2) | - | 1,000,000 | - | - | - |
| Operating leases | 293,153 | 277,168 | 207,876 | - | - |

(1) Includes principal and interest
(2) Principal only
(3) Based on BDC loans drawn down as of March 31, 2017
(4) The Company's lease on its head office and shop facilities in Calgary expires December 31, 2019.

**I. Off Balance Sheet Arrangements**

There were no off balance sheet arrangements at March 31, 2017 or December 31, 2016.

**J. Transactions with Related Parties**

During the three months ending March 31, 2017, the Company incurred legal fees from a firm which employs one of the directors of the Company in the amount of $3,559 ($3,550 for the three months ending March 31, 2016) of which $nil was in trade and other payables as at March 31, 2017 (December 31, 2016 - $nil). There were no other significant related party transactions.

**K. 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 judgments 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, 2016. There have been no changes since that date.

**L. Changes in Accounting Policies including Initial Adoption**

The significant accounting policies of the Company are outlined in note 4 of the audited consolidated financial statements for the year ended December 31, 2016. There have been no changes.

*Future accounting pronouncements*
Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or the IFRIC that are mandatory for accounting periods beginning on or after April 1, 2017 or later periods. The standards impacted that are applicable to the Company are as follows:

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

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

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

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

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

**M. Financial Instruments**

The Company has not entered into any specialized financial agreements to minimize its investment risk, currency risk or commodity risk. For information on financial instruments refer to Note 4 (M) – Significant Accounting Policies – Non-derivative financial instruments in the audited consolidated financial statements at December 31, 2016 and Note 21 – Financial Instruments and risk management to the Interim Consolidated Financial Statements.

***Risk management***

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

***Interest Rate Risk***

The BDC Financing, which had a balance of $1,463,194 outstanding at March 31, 2017, and the demand operating, which had a balance of $287,886 outstanding at March 31, 2017, are subject to floating rates. Based on the floating rate debt outstanding at March 31, 2017 a 1% increase/decrease in interest rates would result in a decrease/increase in the comprehensive income (loss) of approximately $12,800.

***Credit Risk***

Financial instruments that subject the Company to credit risk consist primarily of trade receivables. The Company manages credit risk using credit approval and monitoring practices. At March 31, 2017, 5 customers accounted for approximately 91% of trade receivables (at December 31, 2016, 9 customers accounted for approximately 90% of trade receivables). (See Note 5 for details of credit policy and aging of outstanding trade receivables at March 31, 2017 and December 31, 2016).

***Liquidity Risk***

Liquidity risk management involves maintaining sufficient cash and cash equivalents and the availability of working capital financing.

The table on the next page summarizes the maturity profile of the Corporation's financial liabilities at March 31, 2017 and December 31, 2016 based on contractual undiscounted payments.

| | | Less than 1 year | | 1 to 2 years | | 2 to 5 years | | Total |
|---|---|---|---|---|---|---|---|---|
| **As at March 31, 2017** | | | | | | | | |
| Bank overdraft | **$** | **33,378** | **$** | **-** | **$** | **-** | **$** | **33,378** |
| Demand operating loan | | **287,886** | | **-** | | **-** | | **287,886** |
| Trade and other payables | | **1,799,599** | | **-** | | **-** | | **1,799,599** |
| Long-term debt | | **303,822** | | **1,349,142** | | **810,230** | | **2,463,194** |
| Finance lease obligations | | **74,220** | | **48,722** | | **111,882** | | **234,824** |
| | **$** | **2,498,905** | **$** | **1,397,864** | **$** | **922,112** | **$** | **4,818,881** |

| | | Less than 1 year | | 1 to 2 years | | 2 to 5 years | | Total |
|---|---|---|---|---|---|---|---|---|
| As at December 31, 2016 | | | | | | | | |
| Bank overdraft | $ | 33,201 | $ | - | $ | - | $ | 33,210 |
| Trade and other payables | | 484,977 | | - | | - | | 484,977 |
| Long-term debt | | 284,462 | | 1,284,142 | | 667,890 | | 2,236.494 |
| Finance lease obligations | | 77,060 | | 47,243 | | 124,632 | | 248,935 |
| | $ | 879,700 | $ | 1,331,385 | $ | 792,522 | $ | 3,003,607 |

***Foreign Exchange Risk***
Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company’s exposure relates to trade receivables, and the collection thereof, denominated in USD and the operations of its U.S. subsidiary which are predominantly in USD. The Company does not hedge these items as the timing of related transactions is not certain.

As at March 31, 2017 and December 31, 2016 the following balances were denominated in USD:

| | | **2017** | | 2016 |
|---|---|---|---|---|
| Cash and cash equivalents | **$** | **33,123** | $ | 60,666 |
| Trade and other receivables | **$** | **32,934** | $ | 39,672 |
| Prepaid expenses and deposits | **$** | **12,650** | $ | 9,837 |
| Trade and other payables | **$** | **23,916** | $ | 14,317 |

The Company’s primary foreign exchange sensitivity is in relation to movements of the USD against the Canadian dollar. Based on the USD balances outstanding at March 31, 2017, a 5% increase/decrease of the USD against the Canadian dollar would result in an increase/decrease in total annual comprehensive loss of approximately $3,625.

**N. Disclosure of Outstanding Share Data**

As at March 31, 2017 and May 3, 2017, the following is a description of the outstanding equity securities and convertible securities previously issued by the Company:

| | **Authorized** | **Outstanding as at March 31, 2017** | **Outstanding as at May 3, 2017** |
|---|---|---|---|
| Voting or equity securities issued and outstanding | Unlimited Common Shares | 34,475,994 Common Shares | 34,475,994 Common Shares |
| Securities convertible or exercisable into voting or equity securities - stock options | Stock options to acquire up to 10% of outstanding Common Shares | Stock options to acquire 3,425,000 Common Shares at an exercise price at between $0.145-$0.43 | Stock options to acquire 3,425,000 Common Shares at an exercise price at between $0.145-$0.43 |

**O. Outlook**

Management is continuing to forecast a return to profitability in 2017.

The Company's Sales Pipeline for projects currently scheduled for 2017, which now stands at $88 million, indicates that there will be significant growth in infrastructure sales in both the Canadian and U.S. market, without even considering the effect of the new agreements with Lafarge and any new increases in infrastructure spending by various governments. Both the Canadian and U.S. governments, at both the provincial/state and federal levels, have announced significant planned spending in new and replacement infrastructure projects which should increase the Company's prospects in this market.

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

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

As of this date, the Company has $7.9 million of sales contracts in place for projects scheduled for 2017. In addition, the Company has been approached to provide design assistance, or quotes, or both, for numerous other projects currently scheduled to be completed in 2017 and beyond.

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## Form 51-102F1 - Management's Discussion & Analysis
## For the Three Months Ended March 31, 2017

### Appendix A – Forward Looking Statements

The forward-looking statements in the MD&A for the three months ending March 31, 2017 are outlined below:

General

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

*The foregoing statements contains forward-looking statements which are based on sales forecasts prepared for 2017; sales forecasts include work which is under contract for 2017, as well as probability adjusted forecasts for projects on which the Company has placed or will place bids in the coming year, where the probabilities applied to the sales forecast are based on management's assessment of the particular project based on historical experience and the stage the project is in the sales cycle. There are a number of risks that could affect these assumptions which include: contracted work is delayed; the failure of 2017 sales to materialize, because of project delays or cancelations or because CEMATRIX's cellular concrete is not specified into projects, management's assumptions in applying probabilities to the various projects in the sales forecast are incorrect, and product acceptance in new markets takes longer than anticipated resulting in reduced sales.*

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## Form 51-102F1 - Management's Discussion & Analysis
## For the Three Month Ending March 31, 2017

## Appendix B – Definitions

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

**Revenue:**
Total revenue of the Company that primarily consists of the production and placement of cellular concrete.

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

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

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

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

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

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

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

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