

CEMATRIX CORPORATION
Management's Discussion and Analysis
Year Ended December 31, 2007

Date Completed: April 29, 2008

CEMATRIX CORPORATION
www.cematrix.com

Form 51-102F1 - Management's Discussion & Analysis
For the Year Ended December 31, 2007

The following is the management's discussion and analysis ("MD&A") of CEMATRIX Corporation ("CEMATRIX" or the "Company") for the year ended December 31, 2007. This MD&A should be read in conjunction with the audited financial statements of the Company for the year ended December 31, 2007 (the "Reporting Period") and related notes thereto and the audited financial statements and MD&A for the year ended December 31, 2006. 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.

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 (the "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 2007 audited financial statements and MD&A for the year ended December 31, 2007 and the Board of Directors has reviewed and approved them.

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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;
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 every sector 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 (see Key Market Drivers and Continued Key Risks and Uncertainties); 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.

A. Purpose of the Company's MD&A

The purpose of this MD&A is to assist the reader in understanding the Company and the Company's performance for the year ended December 31, 2007, through the eyes of management.

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".

During 2006, the Company completed its qualifying transaction as defined by the TSX Venture Exchange (the “Exchange”) and is now classified by the Exchange as a Tier II Industrial Issuer and is based in Calgary, Alberta.

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. Company’s Vision and Objectives

CEMATRIX’s vision and long term plan is to build shareholder value by becoming the leading supplier of quality cellular concrete in North America.

In the short term, CEMATRIX has established itself as a supplier of cellular concrete in Western Canada by developing a market for its cellular concrete. In order to accomplish this, the Company managed the growth of its business as follows:

Acceptance by Designers and Specifiers – Generally the speed of projects in Western Canada has resulted in specifying known and established materials for applications in which cellular concrete would be ideal. While this policy initially resulted in a more gradual development of CEMATRIX’s product penetration, the Company is currently experiencing an increased acceptance of the product and services that CEMATRIX offers. The increase in product acceptance is being achieved through extensive education and marketing by CEMATRIX, which has been undertaken since the Company’s inception, to demonstrate the value propositions that cellular concrete is a more cost effective solution than the product or products that cellular concrete would replace; and in most cases, a better overall solution for the intended construction application, while generally providing a significant improvement in the construction schedules, due to speed of placement.

In the past few years a number of designers and specifiers have begun to rely on the extensive testing data provided by the Company, together with the products’ successes in various infrastructure applications. These designers and specifiers have begun specifying the product into various insulating applications at construction projects in the oil sands and refinery regions of Alberta, as well as continuing to specify the product into infrastructure applications.

Sole Source Provider

CEMATRIX is the sole provider of cellular concrete in Alberta and for many other regions of Canada.

The Company continues to work with clients, specifiers and designers to ensure that the benefits of the CEMATRIX products and services warrant the use of a sole source provider. Also, the Company has demonstrated numerous successful projects and is taking steps to decrease reliance on a supply of materials from ready-mix providers for small to medium sized projects which has some risk associated with availability and timeliness of supply (see discussion under Risks and Uncertainties Section).

More recently, a significant portion of CEMATRIX’s business has been focused on oil and gas applications, as an insulation replacement for rigid or granular insulations used in construction projects throughout the Fort McMurray region in oil sands development and in the Fort Saskatchewan area where the construction of refineries and up-graders continues.

Although the Company's initial applications for its products were in the infrastructure construction insulation area, including roads, shallow utilities and void fill/grouting, it has been the demand from the oil and gas sector for a product to service its insulation requirements on a more cost effective, timely and environmentally friendly manner, that has contributed to the growth that CEMATRIX is experiencing.

CEMATRIX is now in the process of expanding its markets geographically into British Columbia; with Eastern Canada to follow, where it will focus on infrastructure applications. This is part of an overall CEMATRIX strategy to market to two distinct market segments – oil and gas, and infrastructure.

In anticipation of market expansion and to become more efficient in its current market, CEMATRIX will look to hire and train technical sales representatives and qualified operating staff. CEMATRIX will also need to add mobile production capacity and ancillary equipment as the market demand and area increases.

The hiring of qualified staff for other regions in Canada is expected to be less challenging than that experienced in Alberta; where the demand for capable individuals to employ, continues to exceed the supply. The difficult recruiting environment in Alberta has not affected CEMATRIX's business to date, as management continues to participate in projects where assistance is required.

The Company has significant capacity in its equipment to meet an increased demand in its current market territory; however, this equipment can not satisfy other market territories at the same time. Furthermore, the current equipment configuration is suitable for small and very large projects. However, the Company is anticipating an increased demand for mid-range projects, or new applications being developed which will require an intermediate sized production capability. This expectation is based upon experience to date, together with the interest generated by existing and potential clients in the use of cellular concrete in various potential applications.

The Company is addressing this potential market expansion and change in the size and nature of projects by engaging in the proprietary design of a new, mid-range dry mix unit with improved mobility over the current large units. Engineering is expected to be completed in late 2008. As the Company is in the early stages of design, the final developed cost of this equipment can not be reasonably estimated at this time.

D. Key Market Drivers

The primary drivers of the Company's business include the following:

1. Capital to be spent in Western Canada on the development of the oil sands and the refineries to refine the oil produced from these projects and other conventional sources;
2. Capital to be spent on infrastructure construction throughout Canada and the United States for the foreseeable future.

These drivers are subject to the continued acceptance of the product by the engineering community, for use in various applications within these construction projects. Current indications, which are based on the number of projects specifying cellular concrete over the past few years, is that this product acceptance will continue to grow and that cellular concrete will become the standard for use for various applications within planned oil and gas development and infrastructure projects.

E. Operations and Overall Performance

The results for the year ended December 31, 2007 were ahead of management's expectations and significantly ahead of the results for the prior year. Highlights include a 215.5% increase in sales to approximately \$7.5 million, consistent margins even though cement prices increased by up to 15% and a consolidated profit of approximately \$0.8 million, which is a \$1.7 million turn around from the restated loss incurred in 2006.

The improvements from 2006 also resulted in a 29.9% increase in total assets to \$4.4 million and a 156% increase in working capital to \$1.9 million. Management's expectations were budgeted sales and consolidated profits for 2007 of \$6.7 million and \$0.6 million respectively.

Results of Operations:
Year ended December 31, 2007

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 is "one-of" 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. For example, the Company's cellular concrete is one of the City of Calgary specifications for insulation of shallow buried utilities. So every year the Company completes various projects in Calgary, when shallow buried utility insulation is in the specification.

Total revenues for the year ended December 31, 2007 were \$7,495,000 as compared to \$2,376,000 for the year ended December 31, 2006. This 215.5% increase in revenues was generated from a 313.7% increase in volumes processed during the year, as compared to the same period in the previous year. The higher volumes sold were at a lower average price per cubic metre for high volume projects. The increase in volumes in 2007 is the result of increased product acceptance by the engineering community, particularly in the oil and gas construction market.

As product acceptance continues to grow, so has the size of the projects. In 2007, one project at a location north of Fort McMurray, Alberta, represented 64.0% of the Company's total volume processed and placed and 55.4% of the total sales dollars in 2007. The trend to larger projects is expected to continue as the product acceptance grows and as the Company pursues other geographical and industry specific markets. It is the nature of the Company's sales – that being one-of type sales, that are continuing to grow in size and scope and the early stage of its growth market that may result in wide fluctuations in the Company's sales in the near term.

Gross margins on sales generated during the year were \$2,671,000 (2006 - \$843,000) and the margin percentage was 35.6% (2006 – 35.5%). The Company was able to maintain its margins as a percentage of sales even though the average price of its raw materials (cement and flyash) increased by an average of 15% during the year. The Company accomplished this through efficiencies gained by improved labour and overhead utilization.

Total expenses for the year ended December 31, 2007 were \$1,863,000 as compared to a restated \$1,759,000 for the same period the previous year. This \$104,000 or 5.9% increase is due to the following:

1. Increased sales, administrative and amortization costs associated with the increase in the sales volume (\$129,000);
2. Corporate bonuses on operating profit during the year for the first time in the companies history (\$77,000); and
3. Management recruitment and relocation costs due to the hiring of a new President and the relocation of U.S. personnel to Canada (\$70,000); and
4. A reduction in the stock based compensation expense incurred (\$172,000).

The Net Income for the year ended December 31, 2007 of \$810,000 is a \$1,721,000 improvement from the restated (\$911,000) loss incurred during the same period the previous year.

Of note, due to a change in classification of expenses made by the Company in 2007, certain of the comparative numbers have changed in 2006 from that reported in the 2006 MD&A's. The accounts affected were cost of sales and general and administrative expenses; with cost of sales being increased and general and administrative expenses being decreased by \$140,000 respectively. The change was made to better reflect the all-in costs of sales approach maintained by the Company.

Quarter ended December 31, 2007 (unaudited)

Total revenues for the three months ended December 31, 2007 were \$1,228,000 (2006 - \$1,100,000). The gross margin generated for the quarter was \$297,000 (2006 - \$306,000). The gross margin percentage for the quarter was 24.2% as compared to 27.8% for the final quarter in the previous year.

The decrease in margins and margin percentage from that of the prior year is due to the difference in types of projects being completed in each of these quarters. In 2007, the projects were mainly infrastructure in nature, while in 2006 the projects completed during the fourth quarter were mainly focused on oil and gas related projects, which tend to yield higher margins with the associated higher risk.

Total expenses for the quarter ended December 31, 2007 amounted to \$336,000 (2006 restated - \$206,000). There were no significant increases or decreases in specific expense categories during the quarter, nor were there any material adjustments to either revenue or expense accounts.

The net loss for the quarter ended December 31, 2007 is \$39,000. This is a \$139,000 decrease from that of the prior year's income for the quarter of \$100,000. The decrease is due to the lower margins achieved during the quarter ended December 31, 2007, re: that nature of the projects completed. In 2006, there was also a \$54,000 reduction to 2006 stock based compensation made in the fourth quarter related to the 2006 error in the calculation of this expense (see Section M – Restatement of Stock Based Compensation and the fair value of Warrants for 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 2006 from that reported in the 2006 MD&A's to reflect the change in presentation. The accounts affected were cost of sales and general and administrative expenses with cost of sales being increased and general and administrative expenses being decreased by \$140,000 respectively. The change was made to better reflect the all-in costs of sales approach maintained by the Company.

F. Selected Financial Information and Summary of Financial Results

General

As a result of the Acquisition, which occurred on April 11, 2006, the financial statements prior to amalgamation reflect those of Old CEMATRIX.

The consolidated financial statements are issued under the name of the legal parent but are deemed to be a continuation of the legal subsidiary Old CEMATRIX. 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 December 31, 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.

Annual Results

The following table has been provided from the Company's audited financial statements. No cash dividends were declared.

Year Ended	Total Revenues	Net Income (Loss) Total	Per Share		Total Assets	Total Long Term Liabilities
			Basic	Diluted		
December 31, 2007	7,495,000	810,000	0.02	0.02	4,370,000	13,000
December 31, 2006 *	2,376,000	(911,000)	(0.03)	(0.03)	3,365,000	223,000
December 31, 2005	2,658,000	(530,000)	(0.02)	(0.02)	3,711,000	448,000

* Net income for the year ended December 31, 2006 has been restated for the year ended December 31, 2006 (see Section M – Restatement of Stock Based Compensation and the fair value of Warrants for the year ended December 31, 2006).

Old CEMATRIX commenced operations in October of 1998 and since then has spent many hours working towards achieving market acceptance. Each year, this product acceptance continues to grow; but various characteristics of the Company's market can result in varying sales dollars on an annualized basis. These characteristics include the following:

1. Early stage of market growth;
2. One-of type sales, including the trend towards larger projects; and
3. Project delays by the Client's Engineers or General Contractors.

It is these market characteristics that have resulted in the annual sales variability through the past three years as summarized above. This is also the reason for the continued growth and variability in total assets, which are tied in part to the timing of projects. Much of the variability in total assets is related to the size of the Company's receivables balance at year end, which is tied to the timing of sales and collection of those sales as other assets have not varied significantly. This trend is expected to continue in the near term.

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. This trend is expected to continue, even though the Company is 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	Total Revenues \$	Net Income (Loss) Total * \$	Per Share Basic \$	Per Share Diluted \$
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)
2005 Year				
December 31, 2005	996,000	(55,000)	(0.002)	(0.002)
September 30, 2005	910,000	9,000	0.0003	0.0003
June 30, 2005	634,000	(192,000)	(0.008)	(0.008)

*** Certain values of the quarterly results for the year ended December 31, 2006 have been restated (see Section M – Restatement of Stock Based Compensation and the fair value of Warrants for the year ended December 31, 2006).**

G. Balance Sheet

Total assets increased to \$4,369,000 at December 31, 2007 from \$3,365,000 at December 31, 2006. This \$1,004,000 increase was primarily due to the increase of receivables, net of minor changes to other balance sheet items. Accounts receivable increased by \$1,164,000 due to the increased level of sales and the holdbacks associated with those sales. At December 31, 2007, the accounts receivable balance included \$828,000 in holdbacks (2006 - \$149,000).

A holdback of 10% is common industry practice for all construction projects and its release to the Company is dependent on the length of the general contractor's project with the end customer. Typically, CEMATRIX is a subcontractor to the general contractor and will not receive its holdback until the general contractor has received its holdback for the entire project; which may be months after CEMATRIX has completed its portion of the related project. The Company has always collected its holdbacks and does not anticipate any issues with collecting the holdbacks outstanding at December 31, 2007.

Changes in other balance sheet items greater than \$100,000 included a \$123,000 increase in cash to \$523,000 due to the increase in sales net of changes to other non-cash working capital items; a \$202,000 decrease in research and development to \$165,000 due to the amortization of previous years costs, with no new costs being incurred in 2007; a \$157,000 increase in share capital to \$6,929,000 is primarily due to the exercise of Agent's warrants during the year; and a \$116,000 increase in contributed surplus to \$515,000 due to the stock based compensation expense recorded on options granted during the year.

H. Consolidated Statement of Cash Flows

The Company generated \$263,000 in cash from operations, after considering changes in non-cash working capital, which is a \$1,135,000 improvement over the cash generated from operations in the prior year. The main reason for the improvement is the increase in profitable sales, net of changes in the non-cash working capital items, mainly receivables.

Cash used in investing activities amounted to \$55,000 (2006 - \$312,000) and this use was largely related to cash used to purchase of property, plant and equipment. The decrease from the prior year is due to the Company not incurring any research and development costs to be capitalized in 2007; while it incurred \$222,000 of these types of expenditures in 2006.

Cash used in financing activities was \$86,000, which is a significant decrease from the \$1,140,000 generated by financing activities in 2006. The cash used in the current year was due to, the repayment of notes payable (see Related Party Transactions Section), the repayment of capital lease obligations and the repayments associated with the loan from the Agriculture Financial Services Corporation, net of cash received on the exercise of agent's warrants. The main difference from the prior year is that in 2006, the Company raised net funds of \$1,649,000 by way of short form offering.

The net cash generated for the year amounted to \$123,000 (2006 - (\$44,000)).

I. Liquidity and Capital Resources

On December 31, 2007, the Company had consolidated working capital of \$1,904,000, which is a \$1,155,000 improvement over the consolidated working capital of \$749,000 at December 31, 2006. The improvement is largely due to the 215.5% increase in sales for the year ended December 31, 2007, which generated a consolidated net income of \$810,000.

Of note the Company has reclassified the full amount of the loan from the Agriculture Financial Services Corporation ("AFSC") as a current obligation for the year ended December 31, 2007. However, it is the intention of the Company to renew this loan in December of 2008 for an additional two years as contemplated within the original loan agreement.

Cash provided from operating activities for the year ended December 31, 2007 before considering changes in non-cash working capital amounted to \$1,291,000; which is a \$1,530,000 improvement over the (\$239,000) cash used during the same period the previous year. The cash generated from operating activities was reduced by decreases in non-cash working capital items of \$1,028,000 (2006 - \$633,000). The majority of the decrease in non-cash working capital was the result of a \$1,164,000 increase in receivables.

Cash generated from the exercise of 490,000 Agent's warrants amounted to \$138,000 after deducting legal fees. The exercise of the Agent's warrants resulted in an increase in the number of warrants outstanding at December 31, 2007 by 244,000 to 3,545,000. These warrants were issued pursuant to a short form offering completed by the Company in 2006 and are exercisable at \$0.40 per warrant, expiring August through October of 2008. Of the 561,000 Agent's warrants available for exercise during the year, 71,000 expired and were not exercised.

In April 2007, the Company increased its operating line facility to \$1,500,000 and on August 3, 2007 the Royal Bank approved a short term (three month) \$1,000,000 increase to its operating line, to accommodate a potential requirement due to the increased sales demands from the Company's customer base. At December 31, 2007, the Company had utilized \$Nil of its \$1,500,000 operating line and was in full compliance with its debt covenants.

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

During the 2007 year, the Company incurred \$78,000 (2006 - \$90,000) in capital expenditures. It is the Company's practice to date, to finance smaller qualifying capital acquisitions through capital leases and to pursue bank financing for larger acquisitions. There were no significant capital acquisitions in 2007 or 2006, but the Company did finance \$19,000 of the 2007 (2006 - \$4,000) acquisitions through capital leases. The following is a summary of the Company's debt obligations and commitments for the next five years.

Debt Category	2008	2009	2010	2011	2012 and Beyond
	\$	\$	\$	\$	\$
Capital leases	53,000	8,000	5,000	-	-
AFSC loan	177,000	-	-	-	-
Operating leases – vehicles	32,000	30,000	23,000	-	-
Operating lease – new premises	176,000	235,000	235,000	235,000	235,000

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.

In 2006, the Company raised net funds of \$1,649,000 through a Short Form Offering where the Company sold 6,599,885 Units at \$0.30 per Unit. Each Unit entitled the holder to one Common Share in the Company and a one half Warrant to purchase shares at \$0.40 per share, expiring two years from the date of purchase. These funds were used to finance the working capital shortfall from the beginning of 2006, the decrease in cash from operating activities net of changes in non-cash working capital items, debt repayments and capital acquisitions.

A portion of the funds raised under the Short Form Offering were initially not used as intended, because of the delay in operational development; but all of the intended expenditures, including debt repayments as contemplated in the Offering have been executed, as of the current year ended December 31, 2007.

J. Continued Key Risks and Uncertainties

Stage of Market Development

Product acceptance and the market for cellular concrete continue to increase steadily, which creates ongoing opportunities for the Company. Management has identified the following risks and uncertainties as they relate to the Company's stage of market development in this growing market:

1. Recruitment and retention of skilled labour is a challenge in Alberta. The Company is anticipating increased sales and is actively recruiting additional personnel to meet this increased market demand;
2. Certain significant projects are typically subject to delays, which must be anticipated; so the Company is adapting forecast tools and methods to reduce the effect of delays on the Company's business;
3. Due to current ready-mix supply constraints, the Company is maximizing utilization of dry process equipment that uses cement, in lieu of ready-mix slurry in meeting its current and expected market demands. Management is also evaluating future needs and focusing on small to medium sized dry mix units, to compliment the two high volume dry process units already in use. One of these dry mix units is currently in the design stage and the Company has also ordered a small batch mixing system to place the Company in a better position to service its small to medium-sized volume requirements, normally supplied through ready-mix companies; and
4. Capital resource requirements must be matched to demand for the Company's products. If demand increases more quickly than anticipated, the Company may be challenged to react quickly enough to realize the opportunities. The Company plans to increase its marketing and sales staff to better anticipate such conditions and continues to evaluate various equipment options to enable the Company to be in a better position to react to these changing market conditions.

Product Warranties

The Company has not experienced warranty claims during its existence and does not accrue any expense related to possible warranty claims; however, the potential exists for such claims being made. The Company works to minimize this risk by continuing material mix, product and equipment development and requiring highly trained quality control staff to be on hand for all projects to check and monitor all input and end product materials.

Competition

Although the Company is the only supplier of cellular concrete in Alberta and the only significant supplier in Canada, there are other suppliers in the U.S. and other countries, and the possibility of future competition exists. The Company is positioning itself for competition with other suppliers, by ensuring that its costs are competitive in relation to costs being incurred by other companies in the industry; and striving to ensure that the Company provides the best in cellular concrete technology including thermal modeling, material mix designs, foaming agents and processing equipment.

Cement Supply

The Company is always faced with potential shortages in its key raw material, cement; particularly given the demand for cement in the current Western Canadian construction market. As there are alternatives to the Company's products, such as granular fills, rigid and other types of insulating materials that the Company's cellular concrete is replacing, shortages of cement may have an adverse affect on the Company's market development and forecasted sales. The Company continues to minimize the effect of this risk by working closely with the cement suppliers to secure cement as soon as the contract is executed and to alert them of future cement requirements as soon as they are known.

Increasing Commodity Prices

The price of the Company's key raw materials, cement and flyash, have increased by over 30% in the past two years. To date, the Company has been able to pass a significant portion of these price increases on to its customers; particularly as they relate to oil and gas construction applications, which represent in excess of 90% of the Company's growth markets. The Company does not expect that this will change, but notes that continued increases will have an effect on margins for smaller volume municipal construction projects; particularly if the Company wishes to maintain its competitive advantage over other products. The Company is working towards minimizing this risk by developing equipment that will eliminate the need for the Company to rely on higher priced ready mix products for its raw material supply, for these types of projects.

K. Transactions with Related Parties

Included in accounts payable are wages and other amounts payable or reimbursable to employees and contractors who are shareholders of \$98 (December 31, 2006 - \$9,688). These amounts represent reimbursements for expenses paid on behalf of the Company, are in the normal course of business and are recorded at their exchange amount.

During the year, the Company incurred legal fees from a firm which employs two of the directors of the Company in the amount of \$31,019 (2006 - \$135,663). The amounts are in the normal course of operations and are recorded at their exchange amount, which is the amount of consideration established and agreed to by the related parties. Included in accounts payable at December 31, 2007 is \$5,300 (2006 - \$18,023) payable to the same legal firm.

In 2007, the Company sold redundant assets to an individual who was a shareholder and still works as a part time engineering consultant to the Company, for total consideration of \$4,319. The assets sold included an obsolete inventory item, which was sold for cost and two redundant capital assets, which were sold for a gain of \$996. The original cost of the capital assets sold was \$5,110 and their depreciated cost base amounted to \$1,504. The sale was in the normal course of operations and was recorded at its exchange amount; which is the amount of consideration established and agreed to by the related parties. Due to the nature of the transaction, the sale was also approved by the Board of Directors of the Company. During the year, the Company also paid this shareholder engineering consulting fees in the amount of \$1,575 (2006 - \$20,000).

During 2007, notes payable due to a shareholder/director in the amount of \$80,933 (December 31, 2006 - \$80,933) and due to an immediate family member of a shareholder in the amount of \$75,367 (December 31, 2006 - \$75,367) were repaid (see Note 9 of the Financial Statements). Interest paid on these loans in 2007 totalled \$10,540 (December 31, 2006: \$17,193).

L. Disclosure of Outstanding Share Data

As at December 31, 2007, the following is a description of the outstanding equity securities and convertible securities previously issued by the Company:

	Authorized	Outstanding as at December 31, 2007	Outstanding as at April 29, 2008
Voting or equity securities issued and outstanding	Unlimited Common Shares	33,465,994 Common Shares	33,465,994 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 2,817,012 Common Shares at an exercise price at between \$0.30-\$0.35	Stock options to acquire 2,817,012 Common Shares at an exercise price at between \$0.30-\$0.35
Share Purchase Warrants	Share purchase warrants to acquire common shares in the Company at \$0.40 per full share purchase warrant	Share purchase warrants to acquire up to 3,544,915 Common Shares	Share purchase warrants to acquire up to 3,544,915 Common Shares

During the year ended December 31, 2007, the Company granted 850,000 (2006 – 2,065,000) options to directors and management.

During the year ended December 31, 2007, 489,947 Agent's warrants were exercised at a price of \$0.30 per Agent warrant, resulting in the issue of 489,947 shares and 244,974 warrants for total proceeds of \$146,984. The warrants issued during the period were one year warrants expiring between August and October of 2008. During the year 71,043 Agent's warrants expired.

M. Restatement of Stock Based Compensation and the Fair Value of Warrants for the year ended December 31, 2006

Subsequent to the year ended December 31, 2007, the Company realized that it had made an error in the application of forfeiture rates, which caused the 2006 stock based compensation expense and the fair value of warrants to be misstated.

The Company determined that the use of a forfeiture rate only applies to those securities, which have not vested and, which are not expected to vest during the life of the security. Accordingly, since the majority of the Company's options and warrants issued in 2006 vested upon granting, the use of forfeiture rates in the calculation of the estimate of the fair value of these securities resulted in an understatement of their respective values.

The effect of the change in the estimate of the fair value of these securities on the financial results for the year ended December 31, 2006 is as follows:

(a) Balance sheet at December 31, 2006

	Previously Reported	Increase (decrease)	Restated
Share capital	6,940,767	(168,616)	6,772,151
Share purchase warrants	72,264	168,616	240,880
Contributed surplus	254,860	143,914	398,774
Deficit	(4,623,221)	(143,914)	(4,767,135)

(b) Statement of income (loss), comprehensive income and deficit

	Previously Reported	Increase (decrease)	Restated
Stock based compensation	144,558	143,914	288,472
Net income (loss) for the year	(767,077)	(143,914)	(910,991)
Deficit	(4,623,221)	(143,914)	(4,767,135)

(c) Statement of cash flow

	Previously Reported	Increase (decrease)	Restated
Net income (loss) for the year	(767,077)	(143,914)	(910,991)
Stock based compensation	144,558	143,914	288,472

N. Changes in Accounting Policies including Initial Adoption

There have been no changes to the Company's accounting policies other than as noted in the next section. In addition, the changes that have been adopted have had no effect on the Company's current or prior years financial statements.

New Accounting Standards

- (a) Effective January 1, 2007 the Company adopted new accounting standards for financial instruments issued by the Accounting Standards Board that comprehensively address when an entity should recognize a financial instrument on its balance sheet, or how it should measure the financial instrument once recognized. These standards have been adopted on a retrospective without restatement basis. The new standards comprise three sections of the CICA Handbook:

CICA Section 3855, “Financial Instruments – Recognition and Measurement”, establishes the criteria for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It also specified how financial instrument gains and losses are to be presented. In accordance with this standard, the Company now classifies all financial instruments as either held for trading, loans and receivables, held to maturity or other financial liabilities. Financial assets, loans and receivables, held to maturity and financial liabilities other than those held for trading, are measured at amortized cost. Available for sale instruments are measured at their fair market value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as held for trading are measured at fair market value, with unrealized gains and losses recognized in the statement of operations.

The Company has made the following classifications

- (i) Cash and cash equivalents are classified as financial assets held for trading;
- (ii) Accounts receivables are classified as loans and receivables; and
- (iii) Accounts payable and accrued liabilities and the Agriculture Financial Services Corporation Loan are classified as other liabilities.

The Company has not recorded any financial instruments as available-for-sale or held to maturity investments during the year.

The estimated fair value of accounts receivable, accounts payable and accrued liabilities approximate their carrying value due to the relatively short-term nature of the instruments. The fair value of fixed interest rate long term debt is determined by comparing the floating interest rate that the Company could obtain in the market for debt with similar terms to its fixed rate debt. The fair value does not differ significantly from its carrying value as the interest rate on the Company’s fixed rate debt is essentially equal to market rates for similar loans. Consequently, as at January 1, 2007 and December 31, 2007, the impact on the consolidated balance sheet of measuring the financial assets and liabilities was nil.

The Company has no derivatives or embedded derivatives in other financial instruments as of December 31, 2007.

CICA Section 3865, “Hedges”, provides optional alternative treatments to CICA Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. This new standard replaces AcG-13, “Hedging Relationships”, and builds on CICA Section 1651, “Foreign Currency Translation”, and specifies how hedge accounting is applied and what disclosures are necessary when CICA Section 3865 is applied. The adoption of this standard did not have an impact on the consolidated financial statements for the year ended December 31, 2007.

CICA Section 1530, “Comprehensive Income”, establishes standards for the reporting and disclosure of comprehensive income. These standards require that an entity present comprehensive income and its components in a separate financial statement that is displayed with the same prominence as other financial statements. The components of other comprehensive income include unrealized gains and losses on financial assets classified as available-for-sale and the effective portion of cash flow hedges, if any. There were no such components to be recognized in comprehensive income upon transition or for the year ended December 31, 2007. As the Company has no items of other comprehensive income or loss, the net earnings or loss for the periods are equivalent to comprehensive income or loss.

- (b) Effective January 1, 2007, the Company adopted CICA Section 1506, "Accounting Changes" which allows for voluntary changes in accounting policies only when they result in the financial statements providing reliable and more relevant information. Changes in accounting policies must be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retroactively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The impact that the adoption of Section 1506 will have on the Company's results of operations and financial condition will depend on the nature of future accounting changes. The adoption of this section had no impact on these consolidated financial statements.
- (c) Effective September 30, 2007, the Company adopted the CICA issued Emerging Issues Committee Abstract No. 166, "Accounting Policy Choices for Transaction Costs". This guidance provides additional clarification on accounting policy choices relating to transaction costs under CICA Handbook Section 3855, "Financial Instruments - Recognition and Measurement". Specifically, the accounting policy provides a choice of recognizing transaction costs in net income when incurred versus adding transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability to the financial instrument's carrying cost. This guidance allows companies to choose different accounting policies for transaction costs of financial instruments that are not similar. The adoption of this section had no impact on these consolidated financial statements.

Recent accounting pronouncements

- (a) Capital Disclosures

In December 2006, 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. There will be no impact to the Company's financial statements as this standard only addresses disclosure requirements.

- (b) Financial Instruments - Presentation and Disclosure

In October, 2006, 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 will be no impact to the Company's financial statements.

- (c) Inventories

In June 2007, 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 is not expected to have an impact on the Company's financial statements.

O. Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities and the Agricultural Financial Services Corporation loan.

(a) Financial Risk Management

The Company's activities are exposed to a variety of financial risks: price risk, credit risk, liquidity risk and cash flow 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.

(b) Price Risk

There are two types of price risk: currency risk and interest rate risk:

- (i) **Currency Risk:** Foreign currency risk arises from fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. The Company is not significantly exposed to foreign currency risk; and
- (ii) **Interest Rate Risk:** The Company has a credit facility with a Canadian chartered bank which, when utilized by the Company, provides loans that are subject to interest rate fluctuation. The Company did not have balances outstanding for this credit facility at December 31, 2007 and is not significantly exposed to interest rate risk.

(c) Credit Risk

Financial instruments that subject the company to credit risk consist primarily of trade accounts receivable. At December 31, 2007, five customers accounted for 90% of accounts receivable (December 31, 2006 - five customers - 77%). For the year ended December 31, 2007, seven customers comprise 92% of sales (December 31, 2006 - five customers comprised 68% of sales).

(d) Liquidity Risk

Liquidity risk management involves maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit lines. Due to the nature of the business, the Company aims to maintain flexibility in funding by keeping committed credit lines available.

(e) Cash Flow Risk

As the Company has no significant interest bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

(f) Fair Value

The fair values of cash, accounts receivable, accounts payable and accrued liabilities approximate their carrying values due to the relatively short periods to maturity of these instruments. The fair value of fixed interest rate long term debt is determined by comparing the floating interest rate that the Company could obtain in the market for debt with similar terms to its fixed rate debt. The fair value of the Agriculture Financial Services Corporation loan is equal to its carrying value because the full amount is due in 2008.

P. Outlook

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, particularly in the oil sands development.

Other external issues that may have some impact on the Company's future growth include:

1. Oil prices;
2. The new Alberta Royalty Plan;
3. The potential impact of the possible U.S. recession;
4. The strength of the Canadian dollar against the U.S. dollar; and
5. Government policies with respect the environment.

It is managements' opinion is that these issues will not have a significant impact on CEMATRIX's growth in the short term.