

CEMATRIX CORPORATION
Management's Discussion and Analysis
Year Ended December 31, 2008

Date Completed: March 26, 2008

CEMATRIX CORPORATION
www.cematrix.com

Form 51-102F1 - Management's Discussion & Analysis
For the Year Ended December 31, 2008

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

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 2008 audited financial statements and MD&A for the year ended December 31, 2008 and the Board of Directors has reviewed and approved them.

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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.

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.

The Company has identified what it considers to be the 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 to assist the reader in understanding them from management’s perspective.

The forward-looking information in statements or disclosures 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. Those 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 identified, in Section D. – Key Market Drivers and in Section E. - Key Risks and Uncertainties, the significant market drivers and risk factors that affect its business and could cause actual results to differ materially from the forward-looking information disclosed herein. The Company cautions the reader that these factors are not exhaustive. The factors that could lead to differences in business results 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 Canadian standard setters.

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

A. Purpose of the Company's MD&A

The purpose of this MD&A is to provide a narrative explanation, through the eyes of management, to assist the reader in understanding the Company's performance for the year ended December 31, 2008, the Company's financial condition as at December 31, 2008 and its future prospects.

B. Corporate Overview

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

Through its wholly-owned subsidiary, CEMATRIX (Canada) Inc., 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.

The value proposition that CEMATRIX offers to customers is as follows: cellular concrete is a more cost effective solution than the competing products because of its initial placed cost, which is proven to be either lower or comparable than competitive products, the benefit of which is further enhanced by its use to significantly reduce the construction timetable, due to the speed of placement and the structural capabilities of the product in relation to other insulating materials (the "Value Proposition").

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.

To date, CEMATRIX has established itself as the leading supplier of cellular concrete in Canada by developing and supplying a growing market for its cellular concrete in Western Canada, mainly Alberta.

A significant portion of CEMATRIX's business over the last few years 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 of Alberta, in oil sands development, and in the Fort Saskatchewan area of Alberta, where the construction of refineries and up-graders continues.

The Company's initial applications for its products were in the infrastructure construction insulation area, including roads, shallow utilities and void fill/grouting. The development of these infrastructure markets continues. 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 currently exceeds infrastructure demand.

CEMATRIX is now in the process of expanding its infrastructure markets geographically into British Columbia and Eastern Canada and is reviewing possible opportunities in the United States, where the market for cellular concrete is more developed, particularly in the area of roof deck, tunnel grouting and certain geotechnical applications. The current focus of the Company is on infrastructure applications in these new market territories, while continuing to develop its base oil sands and refinery applications in Alberta. CEMATRIX's overall strategy is to market to two distinct market segments – oil and gas, and infrastructure. The infrastructure market segment provides continued growth in sales, while working to reduce the effect of seasonality and the economic effects of volatile oil prices.

The Company has sufficient capacity in its existing equipment to meet demand in its current market territory in Western Canada, together with other market territories for certain large volume type applications, provided projects do not run concurrently. However, this equipment can not satisfy all Eastern Canadian market applications, especially the small to medium sized projects. In addition, its current equipment configuration is not designed to reduce the reliance of the Company on ready mix supply for small and medium sized projects where the use of the Company's large mobile dry mix equipment is not suitable for this size of project due to space constraints and/or mobility issues.

The Company is addressing its equipment issues and planned market expansion together with the change in the size and nature of projects by engaging in the proprietary design of a new dry mix unit with improved mobility and internal bulk capability over its current dry mix units. As the Company is in the early stages of design, the final developed cost of this equipment cannot be reasonably estimated at this time. In addition, the Company is designing a new wet mix unit for potential projects in Eastern Canada. This unit is estimated to cost about \$200,000. Its construction and the timing thereof will be dependent on obtaining financing and the development of a suitable volume of projects in this new territory.

D. Key Market Drivers

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

1. Availability of Capital:

The development of the oil sands and refineries in Alberta are partly dependent on the availability of capital to company's making these investments. This affects the timing of projects which the Company already has contracts for supply of cellular concrete and the commencement of other projects which could be specified to use various quantities of the Company's products. In today's market the availability of external capital has become limited due to the current economic conditions and the generation of internal capital has been reduced significantly by the decline in oil prices. Certain companies have announced 2009 funding to progress their oil sands developments. Whether CEMATRIX will participate in those projects will be dependent on the Company's ability to convince the project design engineers of CEMATRIX's Value Proposition, which is largely dependent on the Company's experiences to date.

Infrastructure construction throughout Canada and the United States is dependent on the capital funding that is made available to the various municipal, provincial /state and federal governments to make these types of investments. This also affects the timing of projects with which the Company's products could be applicable. Both the Canadian and United States governments have announced significant infrastructure programs to combat the affects of the economic slowdown, however, the benefit, if any, to CEMATRIX, will be dependent on the type and location of projects to which the infrastructure funds will be allocated and the Company's ability to convince the design engineers responsible for these projects of its Value Proposition.

2. Oil and Gas Prices:

The development of the oil sands and refineries in Alberta are dependent on reliable price forecasts for oil and gas. The significant capital investments required, often in the multi-billion dollar range for some of the oil sand projects, requires an outlook for future oil and gas prices at levels that will generate an acceptable rate of return to the companies making the investment. It is uncertain as to whether the future price of oil

will rebound to a level, which would enable planned oil sands projects to become economically feasible again and enable those projects to proceed as designed.

3. Product Acceptance:

CEMATRIX's success is dependent on its product becoming accepted by more of the project design engineers and specifiers. These individuals are in charge of the engineering and design of oil and gas and infrastructure projects, the materials that can be used in various projects and the determination of whether cellular concrete can be considered for a particular application.

To date, the accelerated schedules for many of the large oil sands and refinery projects in western Canada over the last decade and the desire to use known products for infrastructure projects in Canada has resulted in engineering firms and companies specifying known and established materials for applications in which cellular concrete would be an alternative. In addition, it is common practice for these same engineers and designers to not consider or take a risk in specifying new materials, until these new products are proven out in the market place. These common engineering practices have slowed the development of CEMATRIX's product penetration and can only be overcome by continued education of the specifiers and success by CEMATRIX on those projects, where its cellular concrete is specified.

Extensive education and marketing to geotechnical and design engineers has been and continues to be completed by the Company to demonstrate its Value Proposition for cellular concrete for a number of applications.

The Company's ongoing education and marketing program, together with the experience generated from projects throughout western Canada has resulted in continued acceptance of its product and services in Western Canada. Management believes that this product acceptance will continue to grow and that cellular concrete will become one of the standards for use for various applications within planned Western Canada oil and gas development and infrastructure projects. Management bases this belief on the increasing number of projects that have specified cellular concrete over the past few years and the number of projects that it is currently working on with geotechnical and design engineers.

Many of these same engineering firms also operate where the Company is currently extending its market development focus, that being British Columbia, Ontario and other parts of Canada. The Company's current relationship with these engineering firms, the product experience in Alberta and the positive references from customers on completed projects should enable the Company to generate sales in these markets in a shorter timeframe than it experienced in Alberta. For some applications in these new territories, cellular concrete will also need to be accepted and become an approved product by various municipal and provincial government departments. This acceptance process commenced in the summer of 2008 with the assistance of some of these engineering firms and one of the Company's cement suppliers.

In Western Canada, CEMATRIX has achieved a basic level of acceptance for certain infrastructure applications in various municipalities and is currently working to achieve increased acceptance in Alberta, British Columbia, Ontario and the Territories. Cellular concrete is already an approved product for various infrastructure applications in many regions of the United States. The ease of mobility of the Company's equipment enables the Company to place bids on large dry mix projects in Eastern Canada and the United States and service these customers from its Alberta base.

4. Sole Source Provider:

When engineering firms and companies are considering specifying cellular concrete into a specific project, a concern that arises is the fact that CEMATRIX is the sole provider of cellular concrete in Alberta and for many other regions of Canada. Their concern is that if CEMATRIX is not available to complete their project, then there may be no one else that can do the work as specified. In many cases, this will mean that the project will have to be re-engineered because cellular concrete is not a one for one direct replacement to the products that it replaces. In some instances, owners of projects will not allow the use of a sole provider and others continue to be hesitant to do so, because the costs of re-engineering could be prohibitive. This practice has slowed the development of CEMATRIX's product penetration in Western Canada and has

affected the development of other markets in Canada. The Company continues to work with customers, specifiers and design engineers to ensure that the benefits of the CEMATRIX products and services warrant the use of a sole source provider and to ensure these customers that CEMATRIX will be around to be that provider.

E. Key Risks and Uncertainties

Stage of Market Development:

Besides the issues surrounding engineering acceptance and being a sole source provider, as discussed under Section D - Key Market Drivers, management has identified the following additional risks and uncertainties as they relate to the Company's early stage of market development in this growing market:

1. Capital resource requirements must be matched to the demand for the Company's products. If demand increases more quickly than anticipated, the Company may be challenged to react quickly enough to realize the opportunities. The Company has increased its marketing, sales and engineering support staff to better anticipate such conditions. It also continues to evaluate various equipment options to enable the Company to be in a better position to react to these changing market conditions. However, there is no guarantee that financing would be available to fund new capital asset requirements nor is there certainty that the Company could react in a timely fashion to new capital asset requirements, even if the financing is available;
2. The Company has experienced supply issues with the supply of ready mix in Alberta for wet mix type projects, because of the high demand for this product related to the economic growth experienced over the past few years. For any ready-mix supply constraints, the Company attempts to maximize the utilization of dry mix process equipment that uses cement powder, in lieu of ready-mix slurry, to meet market demands. Management is also evaluating future needs and the development of a mobile dry mix unit with internal bulk capacity, to compliment the two high volume dry mix process unit's already in use. The manufacture of this type of equipment for use in the Alberta market would reduce the Company's reliance on ready-mix products. One of these dry mix units is currently in the design stage; and
3. Recruitment and retention of skilled labour has been a challenge in Alberta over the past few years. The Company has actively recruited additional personnel and is in position to staff currently identified projects in Alberta and any initial expansion into other Canadian markets. Management believes that Alberta's labour market will be less constrained over the next year or so as the effect of the postponement of many oil sands and refinery construction projects results in layoffs of skilled workers. Discussions, with contractors and labour people in British Columbia, Ontario and the United States, indicate that there is adequate supply of skilled labour available to meet growth needs in these markets.

Cement Supply:

The Company does periodically experience shortages in its key raw material, cement; particularly in the last few years given the demand for cement in the 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. Cement supply is currently in over supply in western Canada and these same cement companies have informed CEMATRIX that there is an oversupply in eastern Canada and the United States, as well.

Increasing Commodity Prices:

The price in Alberta of the Company's key raw materials, cement and flyash, had increased by over 32% over the past three years up to 2008. To date, the Company has been able to pass a significant portion of these price increases on to its customers. There is no certainty that this practice will continue. For 2009, the Company has been advised by its suppliers that the prices for these materials will hold at close to the 2008 levels. The Company is working towards minimizing any risk by developing equipment that will eliminate the need to rely on higher priced ready mix products for its raw material supply, for these types of projects. The prices for these key raw materials in British Columbia and Ontario are approximately 20% lower than in Alberta.

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 United States and other countries, and accordingly 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 and structural design assistance, material mix designs, foaming agents and processing equipment.

Product Warranties:

The Company has not experienced warranty claims during its existence due to the low risk nature of its product 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 through ongoing material mix, product and equipment development and by requiring highly trained quality control staff to be on hand for all projects to check and monitor all input and end product materials.

F. Current Economic Situation

Late in 2008 the economic situation in Canada, the United States and the rest of the world began to deteriorate dramatically - The price of oil (calendar average of NYMEX near-month future prices West Texas Intermediate – Cushing) fell from above \$100 US/Bbl. in September to just above \$40 US/Bbl in December; The housing market in the United States collapsed forcing a number of financial institutions in the United States to declare bankruptcy or seek financial aid from the United States government; The weakening of financial institutions in the United States and in other countries has resulted in a tightening of credit markets; Many economic indicators have fallen off dramatically; It has been reported that consumer confidence is at its lowest level in many years; And the news reports have been filled with companies announcing lay-offs and lower earnings guidance.

To help in the economic recovery, governments in the United States and Canada, at both the federal and provincial/state levels, have announced large expenditure programs on infrastructure projects to help to stimulate the economy. However, the Company has not been able to determine if any of this infrastructure funding will result in projects on which the Company can place bids and derive future revenues or what the timing of such projects may be.

In Alberta, the falling prices of oil and gas and the tightening of credit markets, has resulted in companies in the oil sands sector announcing the deferral of a number of large projects in which CEMATRIX had contracts or was specified to complete work for specific applications. This economic situation has resulted in the deferral of approximately \$4.9 million of contracted work and \$6.1 million of other oil sands projects, which were specified to use CEMATRIX's cellular concrete. Each of these postponed projects was originally scheduled for late 2008 or 2009. The new timing of these projects is unknown at this time.

On a positive note, management believes that the slowdown in the oil sands development will benefit the Company when the planned development proceeds, assuming the development does proceed. Based on queries that the Company has received over the past few months from various engineering firms and

companies involved in certain of the projects that have been deferred, there is an aggressive process underway to reduce project costs (both in terms of cost of material and services and in time to complete). This cost reduction goal matches with the Value Proposition for cellular concrete. The Company is having ongoing dialogue with specific engineering firms on the re-design of various aspects of deferred oil sands projects to use CEMATRIX's cellular concrete to help meet their cost reduction targets.

G. Short Term Objectives (the next 12 months)

The current economic situation has necessitated the development of specific short term objectives to ensure the company's continued success until deferred oil sands projects recommence and/or the development of infrastructure and other oil sands projects replaces 2009 volumes deferred in the oil sands area.

These short term objectives include the geographical diversification of its sales and marketing program to British Columbia, Ontario and other parts of Canada, where a stronger infrastructure market exists and the reduction of planned cost levels to target that a breakeven result for 2009, at the minimum, is achieved. The Company is looking at low risk opportunities in the United States, but will defer any major development in this region until sometime in the future.

The uncertain and ever changing economic conditions make it difficult for the Company to predict its sales levels for 2009. Sales levels for 2009 could be higher or lower than past years. The Company has projects in place that have not been deferred and is working with design engineers on a number of other 2009 projects, both oil sands and infrastructure related. However, there is no guarantee whether these projects will go ahead as planned, or whether cellular concrete will be specified into those projects as planned by the engineers that the Company is working with.

In light of these uncertainties the Company has taken specific steps in the first quarter of 2009 to reduce its cost structure. These initial steps included staff layoffs (about 15 % effective the end of February 2009), an across the board 10 % salary and wage cut to take effect on March 1, 2009 and a 20% salary cut for certain officer's effective on March 1, 2009. All discretionary expenditures have also been eliminated. These cost reductions remove approximately \$815,000 from the Company's budgeted cost structure, thus enabling the Company to breakeven at a much lower sales volume. Further staff cuts and cost reductions are planned, if it is determined that sales volumes may be lower than the minimum anticipated.

To summarize, the main objective for 2009 is for the Company to generate a breakeven position, at a minimum, while positioning the Company for a potential economic recovery, or at least the recovery and continuation of oil sands development.

H. Operations and Overall Performance

The results for the year ended December 31, 2008 were below management's expectations and significantly behind the results for the prior year. The Company had record results in 2007 with significant sales volume from projects in Fort McMurray, Alberta, the centre of Alberta's Oil Sands district. The expectations of management at the beginning of 2008 were that the sales volume from this area would continue through 2008. Unfortunately with the collapse of the price of oil and the tightening of the credit markets many of these projects were deferred or cancelled. As a result, sales volumes fell by 38% and revenue declined by 29%.

Results of Operations: Year ended December 31, 2008

The Company's revenue is generated from the sale of cellular concrete and is recognized as the Company processes and places the cellular concrete on site, based on the number of cubic metres processed and placed.

The nature of the Company's sales is "one-off" type sales, meaning there is little in the way of carry over in sales from year to year; except to the extent that the Company has repeat business related to a specific application or location. For example, the Company's cellular concrete is one of the City of Calgary

specifications for insulation of shallow buried utilities. As a result every year the Company completes various projects in Calgary, when shallow buried utility insulation is in the specification. The goal is to increase this type of repeatable and predictable source of revenue.

The Company has two distinct types of production – dry mix, which is fully automated, including the cement slurry mixing process directly from cement and other dry powders, and permits the production of high hourly volumes and wet mix, which is partially automated, except to the extent that the slurry required is delivered by a ready mix provider, and has lower hourly production capability. The dry mix system enables the Company to improve the quality of its end product, while reducing its unit cost by up to 20% as compared to the wet mix process.

Total revenues for the year ended December 31, 2008 were \$5,293,247 as compared to \$7,495,029 for the year ended December 31, 2007. Sales volumes were down 38% in 2008 as compared to in 2007. The decline in sales volume, from reduced project volumes in the oil sand sector in Alberta, was marginally offset by a higher average price per cubic meter in 2008. Volumes in 2008 were mainly wet mix projects (wet mix - 63% vs. dry mix – 37%) which have a higher unit price because of the higher cost of material as compared to that required for dry mix projects which have a lower unit price because the price for materials is lower (wet mix - 16% vs. dry mix - 84% in 2007).

In 2008, 11 projects accounted for 92% of volumes and in 2007, 9 projects accounted for 93% of 2007 volumes. In 2007, one project at a location north of Fort McMurray, Alberta, on its own represented 64% of the Company's total 2007 volume processed and placed and 57% of the total sales dollars in 2007.

Gross margins on sales generated during the year were \$1,555,473 (2007 - \$2,670,966) and the margin percentage (gross margin as a percentage of revenue) was 29.4% (2007 – 35.6%). This is the result of lower dry mix sales in 2008 compare to 2007 which have a higher associated margin because of the lower cost of production. In addition, the lower overall volumes (down 38%) in 2008 attract a higher rate of production overhead per unit of production compared to 2007.

Total expenses for the year ended December 31, 2007 were \$1,979,023 as compared to \$1,863,350 for the same period the previous year. This \$115,673 or 6.2% increase is due to the following:

- Finance costs decreased by \$27,568 – this was mainly due to a reduction in the use of the Company's line of credit facility to finance working capital (interest lower by \$23,151), the repayment of notes payable on December 31, 2007 (interest of \$10,540 in 2007) and the lower level of the Agriculture Financial Services Corporation loan (the "AFSC loan") (interest lower by \$3,415) offset by increased finance costs related to leased assets (interest increased \$6,580) the result of the Company adding \$232,637 of leased assets in 2008 and an increase in other interest of \$2,958;
- General and administrative costs were down by \$40,584 – increase in salary costs of \$71,996 due to having a full complement of management staff in 2008 vs. 2007 and higher property taxes (\$26,472) due to the move into larger premises in mid 2008 were offset by reductions in the corporate bonus provision (2008 nil vs. \$77,380 in 2007, the result of strong performance in 2007), the absence of relocation costs incurred in 2007 for the former President (down \$47,146) and a general reduction in other expenses of \$14,526;
- Sales, marketing and engineering costs increased by \$353,925 – this increase is the result of the Company's strategy to diversify its revenue base – sales and engineering staff were added and consultants were used to assist with the market development and sales services (salaries were up \$165,866, consulting and marketing program costs were up \$112,986 and recruitment costs were up \$26,969). Other costs to support this market development program increased by \$48,104;
- Stock based compensation decreased by \$67,191 – in 2007 most of the options granted to directors and to management vested immediately and as result the entire amount of the stock based compensation expense was recorded in the year the stock options were granted. In 2008 the stock

options granted to directors and managements vested over a two year period and accordingly the expense is recognized over this period;

- Amortization decreased by \$102,909 - product development amortization decreased by \$77,977 – product development costs are amortized over three (3) years and the Company stopped capitalizing product development costs in 2007 and as a result these costs will be fully amortized in 2009 and property, plant and equipment amortization decreased by \$24,932 which is mainly the result of a lower charge for amortization on the Company’s dry mix units which are amortized on a unit of production basis (dry mix volumes represented 37% of volumes in 2008 compared to 84% in 2007).

The net loss for the year ended December 31, 2008 of (\$419,978) compared with net income of \$809,682 for the year ended December 31, 2007. The loss in 2008 was the result of the 38% drop in sales volumes and the increased cost structure of the Company, in terms of staffing resources and market development costs. See above comments on revenue and costs for more detailed information.

Quarter ended December 31, 2008 (unaudited)

Total revenues for the three months ended December 31, 2008 of \$1,304,959 were comparable to the same period in 2007 (2007 - \$1,227,589). The gross margin generated for the quarter was \$381,616 (2007 - \$406,576). The gross margin percentage for the quarter was 29.2% as compared to 33.1% 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 dry mix projects which tend to have higher margins while in 2008 the projects completed during the fourth quarter were wet mix.

Total expenses for the quarter ended December 31, 2008 amounted to \$524,208 (2007 - \$448,090) an increase of \$76,118. Sales, marketing and engineering costs were up by \$79,128 principally due to higher staff levels to support the business development and a sales service program for Eastern Canada and the United States. These expenditure increases were partially offset by the reduction in amortization costs which were down \$16,332. Other expenses increased by \$13,322 due principally to higher general and administrative expenses, the result of having a full complement of staff in 2008 as compared to the same quarter in 2007. Refer also to the above comments that compare expenses for the year 2008 vs. 2007.

The net loss for the quarter ended December 31, 2008 of \$144,761 compared to a loss of \$39,450 in 2007. The increase in the loss over the prior year of \$105,311 is due to the decrease in margins achieved during the quarter ended December 31, 2007, re: that nature of the projects completed in the two periods discussed above and the general increase in expenses, the result of increased spending on market development and sales service.

I. Selected Financial Information and Summary of Financial Results

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)	Per Share		Total Assets	Total Long Term Liabilities
			Basic	Diluted		
	\$	\$	\$	\$	\$	\$
December 31, 2008	5,293,247	(419,978)	(0.01)	(0.01)	3,885,576	179,575
December 31, 2007	7,495,029	809,682	0.02	0.02	,368,647	12,770
December 31, 2006	2,375,921	(910,991)	(0.03)	(0.03)	3,365,075	223,021

CEMATRIX commenced operations in October of 1998 and since then has spent many hours working towards achieving market acceptance for its product. Each year, this product acceptance has continued to grow, however, in this early stage of market development, various characteristics of the Company's market can result in varying sales dollars on an annualized basis.

These characteristics include the following:

1. Current economic environment, in particular the low commodity prices for oil and gas and the tight credit markets, which has caused the deferral of major oil sands projects;
2. One-off type sales, including the trend towards larger projects which can significantly impact sales volumes on a year over year basis; and
3. Project delays by the client's engineers or general contractors which affects sales volumes on a year over year basis; and

It is these market characteristics that have resulted in the annual sales variability through the past three years as summarized on the previous page. This is also the reason for the 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.

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. 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 \$
2008 Year				
December 31, 2008	1,304,959	(144,761)	(0.004)	(0.004)
September 30, 2008	2,514,185	420,784	0.013	0.013
June 30, 2008	1,249,434	(155,746)	(0.005)	(0.005)
March 31, 2008	224,669	(540,255)	(0.016)	(0.016)
2007 Year				
December 31, 2007	1,227,589	(39,450)	0.000	0.000
September 30, 2007	3,116,866	764,022	0.023	0.019
June 30, 2007	2,382,100	274,959	0.008	0.007
March 31, 2007	768,474	(189,849)	(0.006)	(0.006)
2006 Year				
December 31, 2007	1,099,967	99,807	0.004	0.004
September 30, 2007	438,779	(214,868)	(0.010)	(0.010)
June 30, 2007	233,779	(583,276)	(0.025)	(0.025)
March 31, 2007	603,396	(212,654)	(0.009)	(0.009)

J. Consolidated Balance Sheet

Total assets were \$3,885,576 at December 31, 2008 compared to \$4,368,647 at December 31, 2007. This decline of \$483,071 is due to the following:

- Cash was down by \$41,053 (See the discussion on the Consolidated Statements of Cash Flows).
- Accounts receivable were down by \$582,908 principally due to lower levels of holdback at the end of 2008 compared to 2007 (\$427,498 at December 31, 2008 and \$824,953 at December 31, 2007). In 2007 significant holdbacks arose as a result of large projects completed over the late summer and early fall. 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. In addition, at December 31, 2007 the Company had \$82,206 of income tax credits recoverable for eligible scientific research and experimental development expenditures. During 2008, \$57,444 of the tax credits related to 2006 were received and \$24,762 related to 2005 was disallowed. The disallowed amount was added to the gross cost of product development costs and fully expensed in the year.
- Inventory was down \$57,414 as a result of lower levels of foaming agent that is used in the Company's manufacturing process of cellular concrete. This was the result of management's decision to lower inventory levels going into the slower winter and spring seasons and the removal of some defective product which will be returned to the supplier for full credit towards purchases in 2009.
- Prepaids and deposits were up by \$188,000. Credits for defective inventory and deposits for inventory were \$167,528 at December 31, 2008. This will applied towards inventory purchases in 2009. In addition, the Company moved into larger premises in 2008 and the rent deposit increased by \$34,936.
- Property, plant and equipment was up by \$115,522. Additions to plant property and equipment totaled \$299,476 of which \$232,637 were acquired by means of capital leases and \$66,839 were acquired with cash generated from operations. Proceeds from the sale of leased equipment were \$50,000 and this was applied to reduce capital lease obligations. Amortization expense in the year of \$132,495 also reduced the net property, plant and equipment amount.
- Patents, trademarks and technology were reduced by the amortization in the year of \$9,000 on patents. No amortization is recorded on the trademarks and technology as the Company views these as having an indefinite life (see Note 3 to the Consolidated Financial Statements – Accounting Policies).
- Product development costs were reduced by amortization of \$121,936 which includes expensing the disallowed investment tax credit of \$24,762 related to 2005, which was added to product development costs.

Total liabilities were \$538,973 at December 31, 2008 compared to \$651,093 at December 31, 2007. This decline of \$112,020 is due to the following:

- Accounts payable and accrued liabilities were down by \$156,472 principally due to the recording of a corporate bonus provision in 2007 of \$77,380, the result of the record performance of the Company. There was no corporate bonus provision for 2008. The corporate bonus program provides for the payment of up to 7.5% of the Company's consolidated before tax income to employees. The program and payment is approved by the Board of Directors. In addition, trade payables and other accrued liabilities were lower as a result of the timing of payments in 2008 compared to 2007.
- The AFSC loan was reduced through repayments on the loan of \$55,162 in the year.

- Capital lease obligations increased by \$99,514. The Company added net new \$222,088 of leased equipment in the year as it expanded its productive capability and this was offset by repayments of \$122,574.

Shareholders' equity was \$3,346,603 at December 31, 2008 compared to \$3,717,554 at December 31, 2007. This decline of \$370,951 is due to the following:

- Share capital increased by \$231,262 as a result of the reclassification of the book value related to the share purchase warrants when these expired in the year. No new share capital was issued in the year.

- The share purchase warrants expired in the year and the book value was reclassified to share capital.

- Contributed surplus increase is due the stock based compensation charge of \$49,027

- The deficit increased by the loss in the year of \$419,978.

K. Consolidated Statement of Cash Flows

The cash position of the company at December 31, 2008 was \$481,802 compared to \$522,855 at December 31, 2007. The decline of \$41,053 was due to the following:

- The Company generated \$153,522 in cash from operations, after considering changes in non-cash working capital, in 2008 as compared to \$262,923 in 2007. The decline in earnings, after non cash adjustments, was partially offset by the generation of \$261,700 from the net change in non-cash working capital items. Most of this was generated from the collection in 2008 of the accounts receivables outstanding at December 31, 2007.

- Cash used in investing activities amounted to \$16,839 compared to \$54,989 in 2007. In 2008, \$66,839 of cash was used to purchase of property, plant and equipment (\$59,462 in 2007) and this was offset by the sale of equipment for cash proceeds of \$50,000 (\$2,500 in 2007).

- Cash used in financing activities was \$177,736 in 2008 compared to \$85,297 in 2007. The 2008 amount related to the payment on capital lease obligations of \$122,574 (\$24,868 in 2007), included the application of the \$50,000 in proceeds from the sale of a leased asset, and the payment on the AFSC loan of \$55,162 (\$51,113 in 2007). In 2007 \$146,984 of share capital was issued and the notes payable of \$156,300 were repaid.

L. Liquidity and Capital Resources

On December 31, 2008, the Company had consolidated working capital (current assets less current liabilities) of \$1,689,177 compared to \$1,903,627 at December 31, 2007. The decline of \$214,450 is largely due to reduced sales resulting in a decrease in accounts receivable of \$582,908, offset partially by lower accounts payable and accrued liabilities of \$156,472 and the effect from extending the AFSC loan for a two years until December 1, 2010. At December 31, 2007, the Company classified the full amount of the loan from the Agriculture Financial Services Corporation (\$176,571) as a current obligation as the loan renewal was scheduled for December 1, 2008. This loan was renewed for a term of two years effective on December 1, 2008.

As of December 31, 2008, the Company had cash in the bank of \$481,802 and other net working capital of \$1,207,375. The Company believes that this working capital position along with future cash flows from revenue generated in 2009 will be sufficient to operate the Company through 2009. Spending on new equipment will be matched to the signing of new projects agreements where the cash flow from these projects will justify the expenditure. See Section Q – Outlook for discussion beyond 2009.

The Company has a demand operating facility with the Royal Bank of \$1,500,000. Under the facility, the bank will advance up to a maximum of 75% of total receivables less than ninety days outstanding at the end of each month, net of any priority claims plus 50% of inventories up to a maximum of \$250,000. Interest

on the facility is at prime plus 2.25%. The security provided includes a General Security Agreement over all of the assets of the Company. Under the facility, the Company is required to maintain a debt to net tangible worth ratio of less than 1.75:1. At December 31, 2008, the Company had utilized \$Nil of its \$1,500,000 operating line and was in full compliance with its debt covenants. The Company uses this facility to finance working capital requirements as required. In 2008 the facility was only used periodically during the periods when there was a build-up of receivables.

The Company defines its capital as AFSC loan, the capital lease obligations and total 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 Corporations assets (see discussion under section E. Risks and Uncertainties). The consolidated capital of the Company is outlined in Note 16 to the Consolidate Financial Statements. At December 31, 2008 it was \$3,627,906 as compared to \$3,954,505. The decrease of \$326,599 is the result of the loss of \$419,978 in the year partially offset by an increase in total debt of \$44,352 and the stock based compensation charge of \$49,027. The AFSC loan is scheduled to be repaid by December 1, 2010.

In 2007 the Company generated cash 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 3,545,915. These warrants were issued pursuant to a short form offering completed by the Company in 2006 and were exercisable at \$0.40 per warrant, expiring August through October of 2008. These warrants were not exercised and expired in 2008.

It is the Company's current practice to finance qualifying capital acquisitions through capital leases and to pursue bank financing only for larger acquisitions. The Company added \$223,637 in new leased equipment in 2008 to expand its productive capability as compared to \$18,750 in 2007.

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

Debt Category	2009	2010	2011	2012	2013 and Beyond
	\$	\$	\$	\$	\$
Capital leases	42,727	43,896	32,524	29,532	11,215
AFSC loan	59,001	62,408	-	-	-
Operating leases – vehicles	40,327	33,606	6,997	-	-
Operating lease – new premises	234,372	234,372	234,372	234,372	58,593

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.

M. Transactions with Related Parties

During the year, the Company incurred legal fees from a firm which employs two of the former directors of the Company. The amount incurred while these individuals were directors of the Company was \$20,527 in 2008 (2007 - \$31,019). The amounts were 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 and accrued liabilities at December 31, 2008 is \$nil (2007 - \$5,300) relating to these transactions. The two directors resigned on June 17, 2008 and transactions with this firm subsequent to that date have been at arm's length.

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 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.

N. Disclosure of Outstanding Share Data

As at December 31, 2008, the following is a description of the outstanding equity securities and convertible securities previously issued by the Company

	<u>Authorized</u>	<u>Outstanding as at December 31, 2008</u>	<u>Outstanding as at March 26, 2009</u>
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 2,570,825 Common Shares at an exercise price at between \$0.10-\$0.35	Stock options to acquire 2,570,825 Common Shares at an exercise price at between \$0.10-\$0.35

During the year ended December 31, 2008, the Company granted 900,000 (2007 – 850,000) options to directors and management at prices between \$0.30 and \$0.10. In addition, 200,000 of vested options were forfeited (December 31, 2007 - none) and 946,187 options expired (December 31, 2007 – 357,488).

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 2008 none of the warrants were exercised before their expiry date.

O. 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 (refer also to Significant Accounting Policies – Note 3 to the December 31, 2008 Consolidated Financial Statements of the Company). The changes that have been adopted have had no effect on the Company’s current or prior years’ financial statements.

Changes in Accounting Policies

The CICA has issued several new accounting standards, Section 1400 General Standards of Financial Statement Presentation, Section 1535 Capital Disclosure, Section 3031 Inventories, Section 3862 Financial Instruments – Disclosure and Section 3863 Financial Instruments – Presentation. These standards became effective January 1, 2008.

Section 1400 General Standards of Financial Statement Presentation was amended to include requirements to assess and disclose an entity’s ability to continue as a going concern. The adoption of this standard did not have an impact on the Company’s financial statements.

a) Effective January 1, 2008, the Company adopted the CICA issued Handbook Section 1535, “Capital Disclosures”. This standard requires that an entity disclose information that enables users of its financial statements to evaluate an entity’s objectives, policies and processes for managing capital, including

disclosures of any externally imposed capital requirements and the consequences of non-compliance. The new disclosures are provided in Note 16 – Capital Management – in the consolidated financial statements.

b) Effective January 1, 2008, the Company adopted the CICA issued Handbook Section 3031, “Inventories” to harmonize accounting for inventories under Canadian GAAP with International Financial Reporting Standards (“IFRS”). 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 adoption of this section did not have an impact on the Company’s consolidated financial statements.

c) Effective January 1, 2008, the Company adopted the CICA issued Handbook Sections 3862 and 3863 to replace Section 3861, “Financial Instruments - Disclosure and Presentation”. This standard requires an increased emphasis on disclosures about the nature and extent of risk arising from financial instruments and how an entity manages those risks. The new disclosures are provided in Note 15 – Financial Instruments – in the consolidated financial statements.

Future Accounting Policies

The following are the Accounting changes that have been enacted and will affect future reporting periods.

a) The CICA issued Handbook Section 3064, “Goodwill and Intangible Assets”, which will be adopted by the Company, effective January 1, 2009. The new Section replaces Section 3062 “Goodwill and Other Intangible Assets” and Section 3450, Research and Development Costs”. Section 1000, “Financial statement Concepts” was also amended according to Section 3064. This new Section establishes standards for recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented companies. The Company is presently assessing the impact of this new accounting standard on its consolidated financial statements; and

b) In April 2008, the CICA published the exposure draft “Adopting IFRSs in Canada”. The exposure draft proposes to incorporate IFRS into the CICA Handbook effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. On this date, the Company will be required to prepare financial statements in accordance with IFRS. The Company is currently reviewing the standards to determine the potential impact on its consolidated financial statements.

The Company has commenced its IFRS conversion project in 2009 and in conjunction with this has established a formal governance project structure which includes quarterly reviews with the Audit Committee of the Board of Directors.

The Company’s IFRS conversion project consists of three phases as outlined below:

Phase One: Scoping and Diagnostics involves project planning and staffing and the identification of differences between current GAAP and IFRS. This commenced in the 1st quarter of 2009.

Phase Two: Analysis and Development involves diagnostics and evaluation of the financial impact of the various options and alternative methodologies provided under IFRS; the identification and design of operational and financial business processes as required; necessary training of staff and audit committee members; the summarization of IFRS disclosure requirements; and the identification of any information system impacts. This is scheduled to commence in the 2nd quarter of 2009.

Phase Three: Implementation and Review involves the execution of any required changes to the information systems and business processes and the collection of the information to compile the IFRS compliant financial statements. This Phase is scheduled to commence and finish in the 4th quarter of 2009.

P. Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities and the AFSC loan (see Note 3 – Significant Accounting Policies and Note 15 Financial Instruments in the Consolidated Financial Statements).

Section 3855 of the CICA Handbook requires the initial measurement of all financial instruments at fair value with classification into one of five categories; loans and receivables; assets held to maturity; assets available for sale; other financial liabilities; and held for trading.

Financial instruments that are classified as held for trading or available for sale are re-measured each reporting period at fair value with the resulting gain or loss recognized immediately as net income and other comprehensive income, respectively. All other financial instruments are initially accounted for at fair value and subsequently at amortized cost using the effective interest rate method with foreign exchange gain and losses recognized immediately as net income.

The Company has no derivatives or embedded derivatives in other financial instruments as of December 31, 2008 or December 31, 2007.

The Company has classified its financial instruments under the following classifications:

- (1) Cash and cash equivalents are classified as financial assets held for trading;
- (2) Accounts receivable are classified as loans and receivables;
- (3) Accounts payable and accrued liabilities and the AFSC Loan are classified as other financial liabilities.

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 AFSC loan was renewed on December 1, 2008 and accordingly its fair value and its carrying value are equivalent. This debt is repayable over the next two years.

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

(a) 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, 2008 and December 31, 2007 and is not significantly exposed to interest rate risk at this time.

(b) Credit Risk

Financial instruments that subject the company to credit risk consist primarily of trade accounts receivable. The Company manages credit risk using credit approval and monitoring practices. At December 31, 2008 and 2007, 5 customers accounted for approximately 90% of accounts receivable.

The credit period on sales is generally 30 days, subject to standard ten percent construction holdbacks on most of its sales over \$100,000. The Company has historically experienced minimal customer defaults on its trade receivables including holdbacks. Holdbacks are generally collectible forty-five days after completion of the work performed by the Company, however holdbacks can be outstanding much longer, if the holdback release is tied to the completion of the entire project by the general contractor. The Company is normally a subcontractor to the general contractor and only completes a portion of the total work to be completed by the general contractor and accordingly certain holdbacks can be outstanding for up to a year

or more. The aging of the receivables that were past due but not impaired was as follows as of December 31, 2008 and December 31, 2007:

	2008	2007
1-30 days	\$ 90,833	\$ 294,645
30-60 days	202,254	200,435
61-90 days	472,604	329,848
Greater than 90 days (generally holdbacks)	<u>293,358</u>	<u>817,029</u>
	<u>\$1,059,049</u>	<u>\$1,641,957</u>

Of total accounts receivable at December 31, 2008, \$16,385 (December 31, 2007 - \$109,179) relates to non-trade receivables, of which \$Nil (December 31, 2007 - \$82,206) represents amounts receivable from Revenue Canada for Investment Tax Credits claimed in previous years. The Company had minimal impaired accounts receivable at December 31, 2008 or December 31, 2007. The Company's allowance for doubtful accounts at December 31, 2008 amounted to \$348 (December 31, 2007 - \$348).

(c) 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 and limiting the investment of available cash to short term risk free interest bearing deposits. At December 31, 2008 and December 31, 2007 the Company had access to \$1,500,000 in bank operating line financing subject to advance restrictions on the level of receivables and inventories (see Note 8), of which \$Nil has been drawn on these dates. Based on those restrictions the actual operating line availability at December 31, 2008 was \$662,000 (December 31, 2007 \$581,000).

Q. Outlook

As stated in Section G. ("Short Term Objectives"), management's short term objective (for the next 12 months) is for the Company to generate a breakeven position in 2009, at a minimum, while positioning the Company for a recovery in the economy, particularly oil sands development in the Fort McMurray and Fort Saskatchewan areas of Alberta.

The operating results and cash flow of the Company for 2010 and beyond will be significantly affected by the decisions made by companies in regard to the start up, the continued deferral or the cancellation of deferred projects in the oil and gas sector of Alberta that were originally scheduled for 2008 and 2009. The Company has over \$5.4 million in sales under contract for projects originally scheduled to proceed in 2009 but are now deferred and is aware of other projects with total sales of \$6.2 million, which have specified its product, and were also originally scheduled to proceed in 2009 but are now deferred. The scheduled restart date for many of these projects is unknown at this time and there is no certainty that CEMATRIX would be selected for the projects in which it does not have current contracts in place. In addition, the Company has responded to new bid requests for the use of its product to help reduce the costs and scheduling of other oil sands and refinery projects that are scheduled to proceed in 2009. Future growth in the use of CEMATRIX's cellular concrete in infrastructure will depend on the Company getting product acceptance and the speed at which the infrastructure spending, announced by various levels of government in other parts of Canada, is made.

Issues that may have some impact on the Company's future growth are outlined in Section D. – "Key Market Drivers" and in Section E. – "Key Risks and Uncertainties".

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Form 51-102F1 - Management's Discussion & Analysis
For the Year Ended December 31, 2008

Appendix A – Forward Looking Statements

The forward-looking statements in the MD&A for the year ending December 31, 2008 are outlined below:

Page 4 – 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.

The foregoing statement is forward-looking and is based on the Company's vision and long term plan as contained in the strategic plan approved by the Board of Directors of the Company. The key assumptions are: that product acceptance for the Company's cellular concrete continues to grow, that the Company can successfully execute its strategy for growing infrastructure sales, through geographical diversification throughout North America, and growing sales in the oil and gas sector of Alberta and other parts of Canada, that the Company has ready access to skilled workers, that the Company can generate sufficient internal cash flow or can obtain reasonable financing to build additional equipment and increase its productive capability, that the supply of cement remains accessible at reasonable prices, that the weakness in the North American economy is resolved, that there is no introduction of a competitive product and that there are no new government policies that could impact on the sales of CEMATRIX's product. The key risks are that product acceptance takes longer than planned, that the recovery of the economy is slow and this results in the delay or cancellation of projects in which CEMATRIX's product could be used, that as a result sales do not grow and cash flow or financing is not available to finance new equipment, that the economy does recover and there is a shortage of skilled workers and cement supplies to support the Company's growth and lastly that the government introduces new policies that impact the use of cellular concrete or that impact the economics of projects, in which the Company's product could be used, and this results in projects being delayed or cancelled. See also the discussion contained in Section D. Key Market Drivers and Section E. Key Risks and Uncertainties.

Page 5 – Company's Vision and Objectives

The Company has sufficient capacity in its existing equipment to meet demand in its current market territory in Western Canada, together with other market territories for certain large volume type applications, provided projects do not run concurrently.

The foregoing statement is forward-looking and is based on Company information on its existing equipment's capability to provide its product for large volume projects that have been currently identified in its various markets. Other key assumptions are that the equipment maintenance procedures are adequate to ensure the availability of equipment and that its equipment can be readily relocated to all of markets. The principal risks that could affect these assumptions would be the concurrent scheduling of projects (the Company has some limited ability to influence the scheduling of projects), the equipment has mechanical problems (the Company has a regular maintenance program for its equipment), and the equipment could not be readily relocated to locations outside of Alberta (the current equipment has ease of mobility and can be driven or shipped by rail to locations outside of Alberta).

Management believes that this product acceptance will continue to grow and that cellular concrete will become one of the standards for use for various applications within planned Western Canada oil and gas development and infrastructure projects.

The foregoing statement is forward looking and is based on Company information on the increase in the number of projects specifying CEMATRIX's cellular concrete over the past few years and the number of projects that it is currently working on with geotechnical and design engineers. The principal assumption is that the geotechnical and design engineers continue to specify CEMATRIX's cellular concrete into projects. The principal risks that could affect these assumptions include the introduction of a competing product or the failure of the engineers to specify cellular concrete on the projects.

The Company's current relationship with these engineering firms, the product experience in Alberta and the positive references from customers on completed projects, should enable the Company to generate sales in these markets in a shorter timeframe than it experienced in Alberta.

The foregoing statement is forward-looking and is based on Company information that projects in British Columbia have been awarded and projects in Ontario have been verbally confirmed, and may go ahead as committed, after only six months of marketing there. In the Company's view the reception from various engineering firms and municipalities in Ontario that have been visited over the last months has been much more encouraging, in terms of the absolute number and senior level of people in attendance at the Company's presentations and the comments received about potential projects, than previously experienced in Alberta. The principal risks that could affect these assumptions are the failure of the engineering firms to specify CEMATRIX's cellular concrete in their project design and the cancellation of projects.

Management believes that Alberta's labour market will be less constrained over the next year or so as the effect of the postponement of many oil sands and refinery construction projects results in the layoff of skilled workers. Discussions, with contractors and labour people in British Columbia, Ontario and the United States, indicate that there is adequate supply of skilled labour available to meet growth needs in these markets

The foregoing statements is forward-looking and are based on public information that companies in Western Canada are laying off skilled workers in the oil and gas sector and these workers would have the necessary skills and would be available to fill positions at the Company and that discussions held with contractors and labour people in British Columbia, Ontario and the United States are reliable. The principal risks that could affect these assumptions are that the skilled labour leaves Western Canada and accordingly is not available to the Company or the economy recovers and the demand for labour in the markets that the Company is seeking to service increases.

For 2009, the Company has been advised by its suppliers that the prices for these materials will hold at close to the 2008 levels.

The foregoing statement is forward-looking and is based on Company information obtained from its cement suppliers. The principal risk that could affect this assumption is that the economy recovers and the demand for cement increases and results in increased prices.

On a positive note, management believes that the slowdown in the oil sands development will benefit the Company when the planned development proceeds, assuming that the development does proceed.

The foregoing statement is forward-looking and is based on Company information obtained from its discussions with various engineering firms and companies involved in certain of the projects that have been deferred that there is an aggressive process underway to reduce project costs (both in term of cost of material and services and in time to complete). The Company is having specific discussions with engineering firms on the re-design of various of the deferred oil sands projects to use CEMATRIX's cellular concrete to help meet their cost reduction targets. Assuming that this results in additional sales then this will be positive to the Company. The principal risk that could affect this assumption is that the engineering firms and companies do not specify cellular concrete for projects or the projects remain deferred or are cancelled.

To summarize, the main objective for 2009 is for the Company to generate a breakeven position, while positioning the Company for a potential economic recovery, or at least the recovery and continuation of oil sands development.

The foregoing statements are forward-looking and are based on the Company's internal forecast of the cost level required at various sales levels to achieve breakeven results for 2009. The sales levels have been determined by assigning various probabilities to projects that the Company has been awarded or has or will be placing bids on in 2009. There are a number of risks that could affect those assumptions which include a delay in getting product acceptance in new markets such that the timeline for geographical diversification and an increase in infrastructure sales is longer than anticipated, the failure of sales to materialize in its Alberta market, because of project delays or because CEMATRIX's cellular concrete is not specified and the inability of management to complete the targeted cost reductions.

The Company believes that this working capital position along with future cash flows from revenue generated in 2009 will be sufficient to operate the Company through 2009.

The foregoing statement is forward-looking and is based on the assumption that the Company's sales forecast can be realized. The sales forecasts have been determined by assigning various probabilities to projects that the Company has been awarded or has or will be placing bids on in 2009. The principal risk is that the Company cannot find projects in Alberta or in other areas of Canada or the United States to replace the sales that have been delayed because of project deferrals in the Alberta oil sands sector. This would prevent the Company from achieving its sales forecast.

As stated in Section G. (“Short Term Objectives”), management’s short term objective (for the next 12 months) is for the Company to generate a breakeven position in 2009, at a minimum, while positioning the Company for a recovery in the economy, particularly oil sands development in the Fort McMurray and Fort Saskatchewan areas of Alberta.

The operating results and cash flow of the Company for 2010 and beyond will be significantly affected by the decisions made by companies in regard to the start up, the continued deferral or the cancelation of deferred projects in the oil and gas sector of Alberta that were originally scheduled for 2008 and 2009.

The foregoing statements contain forward- looking statements and are based on the assumption that the Company can generate the cost reductions of \$815,000 in 2009 and that it can generate sufficient sales to generate a breakeven position in 2009. Of the targeted cost reductions of \$815,000, salary and wage cuts and layoffs represent approximately 67% of the target, and this has occurred as of March 1, 2009. Achieving the balance of the cost reduction will depend on managements discipline to reduce and control discretionary spending. The sales forecasts are based on work which is under contract for 2009 and beyond, as well as probability adjusted forecasts for projects on which the Company has placed or will place bids in the coming years. There are a number of risks that could affect those assumptions which include the failure of sales to materialize in its Alberta market, because of project delays or cancelations or because CEMATRIX’s cellular concrete is not specified into projects, a delay in getting product acceptance in new markets such that the timeline for geographical diversification and an increase in infrastructure sales is longer than anticipated resulting in reduced sales and the inability of management to complete the targeted cost reductions.

Readers should also refer to Section D. – “Key Market Drivers” and in Section E. – “Key Risks and Uncertainties” to review other market influences and risks and uncertainties that may affect the forward looking statements identified in Appendix A

The Company cautions prospective investors that the above material factors, assumptions and risks are not exhaustive.