

**CEMATRIX CORPORATION**

**Consolidated Financial Statements**

*December 31, 2006*

**Management's Responsibility for Financial Reporting**

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To the Shareholders:


**CEMATRIX CORPORATION**

Management has responsibility for preparing the accompanying consolidated financial statements. This responsibility includes selecting appropriate accounting principles and making objective judgments and estimates in accordance with Canadian generally accepted accounting principles.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded and proper records maintained.

It is the responsibility of the Audit Committee to review the financial statements in detail with management prior to their approval of the financial statements for publication.

External auditors are appointed by the shareholders to examine the financial statements and report directly to them; their report follows. The external auditors have full and free access to the Audit Committee and management.

  
Jeff Kendrick, CA  
April 27, 2007

Chief Executive Officer

To the Shareholders:

**CEMATRIX CORPORATION**

We have audited the consolidated balance sheets of CEMATRIX CORPORATION as at December 31, 2006 and 2005 and the consolidated statements of loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the result of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta

April 27, 2007

*Meyer Norris Penny LLP*

Chartered Accountants

**CEMATRIX CORPORATION**  
**Consolidated Balance Sheets**  
*As at December 31*

	2006	2005
<b>Assets</b>		
<b>Current</b>		
Cash	400,218	1,523
Accounts receivable (Note 5)	477,734	1,278,961
Inventory	339,853	236,388
Prepaid expenses and deposits	28,967	9,086
	1,246,772	1,525,958
Property, plant and equipment (Note 6)	1,232,317	1,264,022
Patents, trademarks and technology (Note 7)	518,878	527,878
Product development costs (Note 8)	367,108	393,268
	3,365,075	3,711,126
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 5)	269,923	1,751,055
Current portion of technology agreements payable (Note 11)	-	50,000
Current portion of Agriculture Financial Services Corporation loan payable (Note 12)	47,606	124,303
Current portion of notes payable (Note 10)	156,300	-
Current portion of capital lease obligations (Note 13)	23,555	25,036
	497,384	1,950,394
Notes payable (Note 10)	-	156,300
Agriculture Financial Services Corporation loan payable (Note 12)	180,078	229,847
Capital lease obligations (Note 13)	42,943	61,675
	720,405	2,398,216
Going Concern (Note 3)		
Commitments (Note 17)		
Subsequent Events (Note 20)		
<b>Shareholders' Equity</b>		
Share capital (Note 15)	6,940,767	4,224,871
Share purchase warrants (Note 15)	72,264	-
Contributed surplus (Note 15)	254,860	56,603
Equity portion of convertible loans (Note 14)	-	1,228,830
Deficit	(4,623,221)	(4,197,394)
	2,644,670	1,312,910
	3,365,075	3,711,126

Approved on behalf of the Board:

 Director

 Director

The accompanying notes are an integral part of these financial statements.

**CEMATRIX CORPORATION**  
**Consolidated Statements of Loss and Deficit**  
*For the year ended December 31*

	2006	2005
<b>Revenue</b>	<b>2,375,921</b>	<b>2,657,619</b>
<b>Cost of sales</b>	<b>1,532,691</b>	<b>1,621,143</b>
<b>Gross Margin</b>	<b>843,230</b>	<b>1,036,476</b>
<b>Expenses</b>		
Finance	209,268	253,782
General and administrative	502,220	394,618
Sales, marketing and engineering	375,452	403,703
Stock-based compensation	144,558	56,603
Amortization	383,281	459,726
	<b>1,614,779</b>	<b>1,568,432</b>
Net operating loss for the year	<b>(771,549)</b>	<b>(531,956)</b>
Other non-operating income	4,472	1,781
Net loss for the year	<b>(767,077)</b>	<b>(530,175)</b>
Deficit, beginning of year	<b>(4,197,394)</b>	<b>(3,632,641)</b>
Loss on write-down of investment <i>(Note 2)</i>	-	(34,578)
Change in Deficit due to Amalgamation <i>(Note 2)</i>	<b>549,500</b>	-
Qualifying transaction costs <i>(Note 2)</i>	<b>(208,250)</b>	-
Deficit, end of year	<b>(4,623,221)</b>	<b>(4,197,394)</b>
Loss per share		
Basic and diluted	<b>\$(0.03)</b>	<b>\$(0.02)</b>
Weighted average number of common shares		
Basic and diluted	<b>26,809,866</b>	<b>23,281,162</b>

*The accompanying notes are an integral part of these financial statements.*

**CEMATRIX CORPORATION**  
**Consolidated Statements of Cash Flows**  
*For the year ended December 31*

	2006	2005
<b>Cash provided by (used in):</b>		
<b>Operating activities</b>		
Net loss for the year	(767,077)	(530,175)
Items not affecting cash		
Amortization of patents, trademarks and technology	9,000	9,000
Amortization of product development costs	247,955	307,345
Amortization of property, plant and equipment	126,326	143,381
Stock-based compensation expense	144,558	56,603
	(239,238)	(13,846)
Net change in non-cash working capital items	(633,111)	(114,337)
	(872,349)	(128,183)
<b>Investing activities</b>		
Purchase of property, plant and equipment	(90,443)	(459,172)
Product development costs incurred net of investment tax credit adjustments	(221,795)	(87,358)
	(312,238)	(546,530)
<b>Financing activities</b>		
Repayment of capital lease obligations	(24,391)	(25,690)
Issuance of common stock, net of costs	1,649,329	542,080
Repayment of convertible debt	(100,000)	-
Technology agreement payments	(50,000)	(50,000)
Repayment of notes payable	-	(229,112)
Reissue of notes payable	-	236,300
Proceeds from Agriculture Financial Services Corporation loan	-	300,000
Repayment of Agricultural Financial Services Corporation loan	(126,465)	(98,224)
Qualifying Transaction Costs <i>(Note 2)</i>	(208,250)	-
	1,140,223	675,354
Increase (decrease) in cash	(44,364)	641
Cash acquired upon Amalgamation <i>(Note 1)</i>	443,059	0
Cash, beginning of year	1,523	882
Cash, end of year	400,218	1,523
<b>Supplementary cash flow information:</b>		
Interest paid	179,268	128,769

*The accompanying notes are an integral part of these financial statements.*

**1. Incorporation and operations**

CEMATRIX CORPORATION (the “Company” or “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”.

**Reverse Takeover and Amalgamation**

The Company was classified as a capital pool company (“CPC”) under the rules of the TSX Venture Exchange (the “Exchange”). As a CPC, the Company’s principal business was to identify and evaluate businesses and assets with a view to potentially acquire them or an interest therein which would constitute the Company’s Qualifying Transaction as required by the policies of the Exchange.

Effective April 11, 2006, the Company successfully completed the acquisition (the “Acquisition”) of all of the issued and outstanding common shares of CEMATRIX (Canada) Inc. (“Old CEMATRIX”) by way of an amalgamation pursuant to the terms of an amalgamation agreement dated December 29, 2005 between the Company, Old CEMATRIX and 1203621 Alberta Ltd. (“Subco”). The terms of the Acquisition, as per the Amalgamation Agreement were as follows:

1. Effective April 11, 2006, Old CEMATRIX and Subco amalgamated (the “Amalgamation”) to form “CEMATRIX (Canada) Inc.” (“New CEMATRIX”).
2. Each issued and outstanding Old CEMATRIX common share was cancelled and exchanged for one common share of the Company at a deemed price of \$0.30 per share, resulting in the issuance of an aggregate of 23,281,162 CEMATRIX common shares to the former holders of common shares of Old CEMATRIX.
3. As consideration for the issuance by the Company of common shares to effect the Amalgamation, New CEMATRIX issued to the Company one common share for each common share issued by the Company.
4. The Company cancelled previously issued options in exchange for new options to purchase a total of 840,000 common shares to the directors, officers, employees and contractors of the Company. (See note 15 Share Capital for detailed breakdown).

Upon completion of the above transactions, New CEMATRIX became the wholly-owned subsidiary of the Company and carries on the operations of Old CEMATRIX. Through New CEMATRIX, the Company manufactures and provides technologically advanced cellular concrete products with applications in a variety of markets. Effective April 24, 2006, the Company was no longer considered a CPC as a result of the completion of the Acquisition and the Company is now classified by the Exchange as a Tier II Industrial Issuer and is based in Calgary, Alberta.

**2. Basis of consolidation**

The acquisition of the shares of Old CEMATRIX has been accounted for as a reverse takeover transaction in accordance with guidance provided in Emerging Issues Committee Abstract No. 10 (“EIC 10”) and has therefore been accounted for as a capital transaction. The issuance of treasury shares by the Company has been recorded by eliminating CEMATRIX’s share capital resulting in an increase to retained earnings by \$773,963, less the deficit which existed in CEMATRIX, prior to amalgamation of \$224,463, resulting in a net increase to opening retained earnings of \$549,500. Costs associated with completing the qualifying transaction (the “QT”) and removing the condition of the Company as a Capital Pool Company totaling \$208,250 have been charged to Retained Earnings in accordance with Guidance provided from EIC 10.

**CEMATRIX CORPORATION**  
**Notes to the Consolidated Financial Statements**  
*For the years ended December 31, 2006 and December 31, 2005*

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**2. Basis of consolidation (continued)**

These financial statements and the amounts reported for prior periods reflect the assets, liabilities and results of operations of Old CEMATRIX, the legal subsidiary, prior to reverse takeover and the consolidated assets, liabilities and results of operations of the Company and Old CEMATRIX subsequent to the reverse takeover. 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). The comparative balance sheet as at December 31, 2005 and the comparative results of operations and cash flows for the year ended December 31, 2005 are those of Old CEMATRIX. Likewise, the earnings per share for comparative periods has been computed by dividing the total earnings by the number of shares issued in the reverse takeover transaction.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, New CEMATRIX and the subsidiaries of New CEMATRIX: CEMATRIX (Calgary) Ltd. (100% owned) and CEMATRIX (U.S.) Inc (90% owned). The Company has consolidated the assets, liabilities, revenues and expenses of its subsidiaries after the elimination of intercompany transactions and balances. The loss on write-down of investments recorded in 2005 relates to the Company's investment, through its wholly owned subsidiary New CEMATRIX in CEMATRIX (Calgary) Ltd. In 2000, the Company took a 50% ownership in CEMATRIX (Calgary) Ltd. with an initial investment of \$50 for 50% of the common shares and \$50,000 cash for start-up costs. On June 30, 2005, the Company purchased the remaining 50% interest from a party related through common shareholders through the issuance of 125,000 of the Company's common shares with a deemed value of \$50,050. The transaction was accounted for using the purchase method. The purchase price was allocated primarily to licenses with a carrying value of \$26,762. A write-down of the investment of \$34,578 to reflect the fair market value of the net assets acquired was recorded in the 2005 year-end.

**3. Going concern**

As the Company is in its development stage, it has incurred recurring operating losses resulting in an accumulated deficit of \$4,623,221 (December 31, 2005 - \$4,197,394) and a positive working capital of \$749,388 (December 31, 2005 - deficiency of \$424,436). To remain a going concern, the Company must become profitable and be able to rely on the continued ability to raise necessary capital through issuance of shares or debt. It cannot be determined at this time whether these objectives will be maintained. These financial statements do not reflect the adjustments or reclassification of assets and liabilities which would be necessary if the Company were unable to continue its operations.

**4. Significant accounting policies**

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and include the following significant accounting policies:

***Inventory***

Inventory is valued at the lower of cost and net realizable value. Cost is determined by the first-in first-out method.

***Property, plant and equipment***

Property, plant and equipment are recorded at cost. Amortization is provided using methods and rates intended to amortize the cost of assets over their estimated useful lives.

Automobiles	30% declining balance
Leasehold improvements	Lease term plus option
Computer equipment and software	30% declining balance
Equipment and cellular material processors	20% declining balance
Equipment – dry mix processors	Per cubic metre produced based on estimated output of equipment over its useful life
Furniture and fixtures	20% declining balance

**4. Significant accounting policies (continued)**

Amortization is charged in the year the asset becomes available for use.

***Leases***

A lease that transfers substantially all of the benefits and risks of ownership is classified as a capital lease. At the inception of the lease, an asset and a payment obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair market value. Assets under capital lease are amortized on the declining balance basis over their estimated useful lives. All other leases are accounted for as operating leases and rental payments are expensed as incurred.

***Patents, trademarks and technology***

The Company has adopted the Canadian Institute of Chartered Accountants' (CICA) guidance for "Goodwill and Other Intangible Assets" effective January 1, 2004. The standards require that intangible assets with an indefinite life, such as trademarks and technology, no longer be amortized but tested for impairment at least annually. The Company assesses impairment based on comparing book value to the estimated discounted future cash flows from the intangible assets and any impairment is included in current year earnings. Previously trademarks and technology were recorded at historical cost and amortized on a straight-line basis over ten years for trademarks and fifteen years for technologies.

Intangible assets with a finite life, such as patents, are recorded at cost, are amortized on a straight-line basis over ten years, and are tested for impairment at least annually.

***Product development costs***

Costs incurred under the Company's ongoing product development program which meet specified criteria related to technological, market and financial feasibility are deferred and amortized over a period of three years, commencing with the year following the year in which the costs are incurred.

***Long-lived assets***

Long-lived assets consist of property, plant and equipment, patents, trademarks and technology and product development costs. Long lived assets held for use are measured and amortized as described in the applicable accounting policies.

The Company performs impairment testing on long-lived assets held for use whenever events or changes in circumstances indicate that the carrying value of an asset, or group of assets may not be recoverable. Impairment losses are recognized when undiscounted future cash flows from its use and disposal are less than the asset's value. Any impairment is included in earnings for the year.

***Convertible debentures***

The Company accounts for convertible debentures as a financial liability and equity. The carrying amount of the liability is based on the present value of the stream of future payments of interest for the debentures at prevailing market rates for a similar liability that does not have an associated equity component. The carrying amount of the equity is determined by deducting the carrying amount of the financial liability from the financial instrument as a whole. The

**4. Significant accounting policies (continued)**

amount of the liability is adjusted through periodic charges to interest expense over the term to maturity to recognize the actual payments made as well as the present value of the liability.

***Revenue recognition***

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.

***Segmented information***

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. These applications include the insulating of tank bases, roads, shallow utilities, fire waterlines, facilities and piles at refinery and oil sand construction and expansion projects in Fort McMurray and Fort Saskatchewan, together with road, bridge and shallow utility infrastructure projects throughout Western Canada, but primarily in Alberta. Management has determined that the Company operates in one industry and in one geographical location.

***Investment tax credits***

Prior to becoming a public company, the Company was entitled to investment tax credits on certain research and product development costs incurred. These credits are recognized against the related costs when there is reasonable assurance of their recovery.

***Stock-based compensation***

Stock options issued are accounted for in accordance with fair value accounting for stock-based compensation. The associated compensation expense is charged to earnings (loss) with a corresponding increase in contributed surplus, over the vesting period of the grant. The fair value of each stock option granted is estimated on the date of grant using the Black Scholes option pricing model. As the options are exercised, consideration paid, together with the amount previously recognized in contributed surplus, is recorded as an increase in share capital.

***Future income taxes***

The Company follows the asset and liability method of accounting for future income taxes. Under this method, future income tax assets and liabilities are recorded based on temporary differences between the carrying amount of balance sheet items and their corresponding tax bases. In addition, the future benefits of income tax assets, including unused tax losses, are recognized, subject to a valuation allowance, to the extent that it is more likely than not that such future benefits will ultimately be realized. Future income tax assets and liabilities are measured using enacted tax rates and laws expected to apply when the tax liabilities or assets are to be either settled or realized.

***Foreign currency translation***

Expenses and capital asset purchases denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities reflect the exchange rates at the balance sheet date and translation gains and losses are included in current earnings.

***Measurement uncertainty***

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of

**4. Significant accounting policies (continued)**

contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Accounts receivable are stated after evaluation as to their collectibility and an appropriate allowance for doubtful accounts is provided where considered necessary. Investment tax credits recoverable included in accounts receivable are accrued based on management's assessment of estimated recoverable amounts. Provisions are made for slow moving and obsolete inventory. Amortization of property, plant and equipment, product development costs and patents is based on the estimated useful lives of these assets. Product development costs are deferred based on expected future benefits from these expenditures. The impairment test for intangible assets is based on assumptions regarding future business volumes, sales prices, costs, cash flows, discount rates and other relevant assumptions.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

***Financial Instruments and Comprehensive Income***

The CICA has issued new accounting rules on financial instruments, hedges and comprehensive income that will require the Company to account for all of its financial assets and liabilities at fair value. When the Company adopts the new rules effective January 1, 2007, it will remeasure its financial assets and liabilities, as appropriate, at fair value and report a new section of shareholders' equity called other comprehensive income.

The Company is determining the impact that these changes in accounting policy will have on its consolidated financial statements once adopted.

**5. Accounts receivable and accounts receivable factoring**

Included in accounts receivable are income tax credits recoverable for eligible scientific research and experimental development expenditures (SR&ED) incurred prior to the Company becoming a public company. Estimated recoverable amounts are accrued when management is reasonably assured that the related expenditures will be deemed eligible by the taxation authorities. Actual recoverable amounts may differ materially from these estimates.

At December 31, 2006, the tax credits recoverable were estimated at \$80,233 (December 31, 2005 - \$226,442) of which \$13,500 relates to expenditures made in 2006 and \$66,733 relates to expenditures in 2005. During the year-ended December 31, 2006, a total of \$120,476 in tax credits were received by the Company; \$102,716 in tax credits were from fiscal 2004 and \$17,760 were from 2002.

During the year, the Company had a credit facility agreement with a shareholder for specific receivables to fund current working capital requirements. The facility enabled the Company to sell to the shareholder a specific receivable on a with-recourse basis. The facility was repaid upon collection of the related receivable. As the Company retained significant risks relating to the accounts receivable being sold, the accounts receivable remained in the Company's financial statements and the amounts advanced by the purchaser were recognized as an account payable. Funds advanced under this facility are equal to up to 80% of the gross amount of the invoice including GST having a carrying value of \$nil (December 31, 2005 - \$1,062,076). The outstanding amount bore interest at 2 - 2.5% per month and was secured by the specific receivable. At December 31, 2006, accounts payable and accrued liabilities includes \$nil (December 31, 2005 - \$693,698) relating to this credit facility. This facility was replaced during the year with the RBC Operating Loan Facility (Note 9).

**CEMATRIX CORPORATION**  
**Notes to the Consolidated Financial Statements**  
*For the years ended December 31, 2006 and December 31, 2005*

**6. Property, plant and equipment**

	<i>Cost</i>	<i>Accumulated Amortization</i>	<i>2006 Net Book Value</i>
Automobiles	78,344	50,891	27,453
Buildings and leasehold improvements	39,100	37,290	1,810
Computer equipment and software	98,869	72,705	26,164
Equipment and cellular material processors	949,866	528,636	421,230
Equipment – dry mix processors	759,397	10,955	748,442
Furniture and fixtures	21,974	14,756	7,218
	<b>1,947,550</b>	<b>715,233</b>	<b>1,232,317</b>
	<i>Cost</i>	<i>Accumulated Amortization</i>	<i>2005 Net Book Value</i>
Automobiles	78,344	39,126	39,218
Buildings and leasehold improvements	39,100	37,074	2,026
Computer equipment and software	89,557	63,488	26,069
Equipment and cellular material processors	912,325	432,713	479,612
Equipment – dry mix processors	712,015	3,507	708,508
Furniture and fixtures	21,589	13,000	8,589
	<b>1,852,930</b>	<b>588,908</b>	<b>1,264,022</b>

During 2006, additions to property, plant and equipment totalled \$94,620 (December 31, 2005 - \$759,172) of which \$4,177 (December 31, 2005 - \$nil) were acquired by means of capital leases, \$90,443 (December 31, 2005 - \$459,172) were acquired by means of cash and \$Nil (December 31, 2005 - \$300,000) were acquired by means of financing. Property, plant and equipment includes equipment and automobiles under capital lease with a gross cost of \$292,186 (December 31, 2005 - \$288,008) and accumulated amortization of \$177,430 (December 31, 2005 - \$155,314). Amortization of property, plant and equipment for the year-ended December 31, 2006 was \$126,325 (December 31, 2005: \$143,381).

**7. Patents, trademarks and technology**

	<i>Cost</i>	<i>Accumulated Amortization</i>	<i>2006 Net Book Value</i>
Patents	90,000	63,000	27,000
Trademarks	12,863	3,858	9,005
Technology	537,872	54,999	482,873
	<b>640,735</b>	<b>121,857</b>	<b>518,878</b>
	<i>Cost</i>	<i>Accumulated Amortization</i>	<i>2005 Net Book Value</i>
Patents	90,000	54,000	36,000
Trademarks	12,863	3,858	9,005
Technology	537,872	54,999	482,873
	<b>640,735</b>	<b>112,857</b>	<b>527,878</b>

**CEMATRIX CORPORATION**  
**Notes to the Consolidated Financial Statements**  
*For the years ended December 31, 2006 and December 31, 2005*

**7. Patents, trademarks and technology (continued)**

Amortization of patents charged for the year ended December 31, 2006 was \$9,000 (December 31, 2005: \$9,000).

**8. Product development costs**

	<i>Cost</i>	<i>Accumulated Amortization</i>	<i>2006 Net Book Value</i>
Product development costs	1,629,063	1,261,955	367,108
	<i>Cost</i>	<i>Accumulated Amortization</i>	<i>2005 Net Book Value</i>
Product development costs	1,407,268	1,014,000	393,268

Product development costs capitalized during the year-ended 2006 amounted to \$196,062 (December 31, 2005 - \$190,665). Research and development tax credits in the amount of (\$13,500) (December 31, 2005 - \$71,866) net of prior year investment tax credit adjustments of \$39,233 (December 31, 2005 - (\$31,421)) were applied to adjust this balance. Amortization of product development cost of \$247,955 (December 31, 2005 - \$307,345) was charged during the period.

**9. Bank operating line**

During the year, the Company opened a \$750,000 Demand Operating Facility with the Royal Bank of Canada. 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. 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 tangible net worth ratio of less than 1.75:1. (See Note 22 for increase in operating facility). The balance at year-end is nil and the Company is in compliance with the terms of the covenants.

**10. Notes payable**

Notes payable were due on January 31, 2007 and bore interest at an annual rate of 11% calculated and payable quarterly. The notes payable are due to related parties as described in Note 16. Finance expenses include interest on the notes payable of \$17,193 (December 31, 2005 - \$8,949).

On December 31, 2006, the Company entered into an agreement to extend the terms of the Notes Payable to December 31, 2007. Under the new terms, interest is calculated at 12.5% and the Company will make monthly payments of principal in the amount of \$13,025 plus earned interest, commencing January 31, 2007, with the final payment due December 31, 2007.

**11. Technology agreements payable**

During 2001, the Company entered into an agreement to purchase a foaming agent technology for \$350,000. At December 31, 2006, \$nil (December 31, 2005 - \$50,000) remained payable. The agreement payable bears no interest and the balance was repaid in March 2006.

**CEMATRIX CORPORATION**  
**Notes to the Consolidated Financial Statements**  
*For the years ended December 31, 2006 and December 31, 2005*

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**12. Agriculture Financial Services Corporation loan payable**

During 2005, the Company borrowed \$300,000 from the Agricultural Financial Services Corporation ("AFSC") to be used to complete the acquisition of equipment with a cost of \$571,500. The AFSC loan is payable over five years with monthly payments of \$11,137 (including interest) commencing October 1, 2005. The interest rate for the initial three year period is 7.85%. The monthly payments run from July to December each year. The loan is secured by equipment and a General Security Agreement. The executive managers of CEMATRIX have each provided personal guarantees in the amount of \$300,000 and are covered by life insurance. At December 31, 2006, \$227,684 (December 31, 2005 - \$273,847) of this loan is unpaid.

During 2001, the Company borrowed \$280,000 from the AFSC. The five-year loan bears interest at 7.3% and is secured by the related property, plant and equipment with a net book value of \$88,109 (December 31, 2005 - \$110,136), personal guarantees by the founding shareholders and life insurance policies on those founding shareholders. The loan is repayable in equal monthly blended payments of \$14,069. Monthly payments were made July to December each year, with the final payment made December 1, 2006.

Finance expenses include interest on AFSC loans in the amount of \$24,780 (December 31, 2005 - \$19,620).

**13. Capital lease obligations**

Capital leases, which relate to the purchase of equipment, bear interest at 10.00% to 21.19%, are repayable in blended monthly payments totalling \$3,055 and mature from April 2006 to October 2008. The annual future commitments under the leases are as follows:

2007	31,306
2008	45,133
2009	952
	<hr/>
	77,391
Less imputed interest	<hr/> 10,893
	66,498
Current portion	<hr/> 23,555
	<hr/> 42,943

Finance expenses include interest on capital lease obligations in the amount of \$11,021 (December 31, 2005 - \$10,386).

**14. Convertible loans**

Convertible loans consisted of the following:

- Series V debenture was a one-year convertible, redeemable 11% debenture with interest payable quarterly, maturing January 1, 2007. The debenture was convertible at \$2.00 per common share. This amount was repaid in full in December 2006, (December 31, 2005: \$100,000).
- The convertible loan was due January 1, 2007 and bore interest at 11% per annum. The loan amount plus accrued interest automatically converted into 4,237,500 common shares of the Company upon approval of the amalgamation with a Capital Pool Company. (See Note 15). (Balance December 31, 2005: \$840,000).

The promissory note was due December 31, 2006 and bore interest at 12% per annum. The principal amount of the promissory note plus accrued interest automatically converted into 1,456,652 common shares of the Company upon approval of the amalgamation with a Capital Pool Company. (See Note 15). (Balance December 31, 2005: \$288,830).

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**14. Convertible loans (continued)**

Upon completion of the QT, effective April 11, 2006, the Convertible loan and the promissory note was converted into \$1,138,831 worth of common shares (see Note 15).

- Finance charges include interest on debentures, convertible loans and convertible notes payable of \$65,410 (December 31, 2005 - \$110,877).

**15. Share capital**

*Authorized*

Unlimited number of common shares  
Preferred shares – to be issued in series as authorized by the directors

*Issued*

	<i>Number Of Shares</i>	<i>2006 \$ Amount</i>	<i>Number Of Shares</i>	<i>2005 \$ Amount</i>
<b>Old CEMATRIX</b>				
Common shares				
Beginning of year – Old CEMATRIX	17,587,010	\$4,224,871	15,543,996	\$3,721,571
Shares issued on conversion of convertible loans	5,694,152	1,138,831	-	-
Shares issued by private placement	-	-	1,388,014	341,250
Shares issued on acquisition (Note 2)	-	-	125,000	50,050
Shares issued on conversion of debenture	-	-	20,000	10,000
Shares issued on exercise of options	-	-	510,000	102,000
Total shares of Old CEMATRIX prior to amalgamation	23,281,162	5,363,702	17,587,010	4,224,871
Shares of Old CEMATRIX cancelled upon amalgamation	(23,281,162)	(5,363,702)	-	-
	-	\$ -	17,587,010	\$4,224,871
<b>New CEMATRIX</b>				
Beginning of year – New CEMATRIX (see Note 2)	3,095,000	\$ -	-	\$ -
Shares issued for cash at incorporation	-	-	590,000	118,000
Shares issued for cash – initial public offering	-	-	2,505,000	751,500
Shares of New CEMATRIX issued upon amalgamation	23,281,162	5,363,702	-	-
Shares issued as part of Offering	6,599,885	1,979,966	-	-
Share issue costs	-	(330,637)	-	(95,537)
Issuance of Warrants pursuant to Offering	-	(72,264)	-	-
Common shares – end of period	32,976,047	\$6,940,767	3,095,000	\$773,963

*Common shares*

Effective April 11, 2006 the Acquisition was completed, at which time the issued and outstanding shares of Old CEMATRIX were cancelled and one new share of the Company was issued to replace each cancelled share of Old CEMATRIX, effecting a one for one exchange. The Company also received one share of New CEMATRIX for each new share issued by the Company to the shareholders of Old CEMATRIX and upon completion of the Acquisition New

**15. Share capital (continued)**

CEMATRIX became a wholly-owned subsidiary of the Company.

On July 18, 2006 the Company filed a short form offering document (the "Offering") with the TSX Venture Exchange establishing a price of \$0.30 per Unit (a "Unit"). Each Unit consisted of one common share in the capital of the Company ("Common Share") and one-half of one transferable Common Share purchase warrant ("Warrant"). Each whole Warrant entitles the holder thereof to acquire one additional Common Share at an exercise price of \$0.40 for a period of 24 months from the date of the Closing of the Offering.

Integral Wealth Securities Limited (the "Agent"), agreed to act as agent for the Offering on a commercially reasonable best efforts basis and received a cash commission equal to 8.5% of the gross proceeds received by the Company. The Agent also received Agent's Warrants entitling the holder thereof to purchase one Unit exercisable at a price of \$0.30 per Unit for a period of 12 months from the Closing.

Pursuant to the Offering, a total of 6,599,885 Units were issued in multiple tranches at a price of \$0.30 per Unit for total gross proceeds of \$1,979,966.

***Common share options***

The Company has an option plan for the issue of up to 10% of the common shares of the Company. The Company accounts for its grants under the plan in accordance with the fair value based method of accounting for stock-based compensation. All options that are outstanding will expire during the time from April 11, 2007 to November 1, 2011 or earlier if the optionee ceases to be a director, officer, employee or contractor or there is a merger, amalgamation or change in control of the Company. At December 31, 2006 a total of 2,324,500 in Stock options to purchase common shares (December 31, 2005: 840,000) at \$0.30 and \$0.35 per share were issued to directors, consultants and managers of the Company. All options issued to date vest at the date of grant, with the exception of those issued on November 1, 2006 (1/3 vest immediately, 1/3 vest six months from the effective date and the balance vest one year from the effective date).

At the date of grant, the per share fair value of the options granted and other assumptions, using the Black-Scholes option pricing model are as follows:

	2006	2005
Estimated per share fair value per option	0.16-0.17	0.15
Risk-free interest rate	5%	4%
Expected life	5 years	3 years
Expected volatility in stock price	50 - 75%	80%
Expected annual dividend yield	0%	0%

Stock based compensation of \$144,558 has been recognized as an expense and an increase to contributed surplus (December 31, 2005: \$56,603). This amount together with the December 31, 2005 consolidated balance of \$110,302 (\$56,603 from CEMATRIX (Canada) Inc. in stock-based compensation and \$53,699 from CEMATRIX Corporation Inc., (\$35,665 of which was due to stock-based compensation and \$18,034 due to share issuance costs)), resulted in a balance in contributed surplus of \$254,860 at December 31, 2006 (December 31, 2005: \$56,603). Option pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility. Changes to these estimates and assumptions may materially affect the calculations. Stock-based compensation calculations have no effect on the Company's cash position.

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**15. Share capital (continued)**

The following table summarizes the options to acquire common shares outstanding as at December 31, 2006:

Number of Shares under Option	Exercise Price	Expiry Date
162,488	\$0.30	April 11, 2007
147,012	\$0.30	August 5, 2010
1,690,000	\$0.30	April 11, 2011
175,000	\$0.35	May 31, 2011
<u>150,000</u>	<u>\$0.30</u>	<u>November 1, 2011</u>
<u>2,324,500</u>		

At December 31, 2006, 50,000 in stock options had expired. There are 100,000 options that have not vested as at December 31, 2006.

<u>Agent's Options:</u>		
<u>250,500</u>	\$0.30	November 4, 2007

Blackmont Capital Inc. holds an option to acquire up to 250,500 common shares at an exercise price of \$0.30 for a period of 24 months following the date the common shares began trading on the Exchange.

*Warrants*

The Offering dated July 18, 2006 and amended on September 29, 2006 provided that each Unit sold as part of the Offering will consist of one common share in the Company ("Common Share") and one-half of one transferable common share purchase warrant ("Warrant"). Each whole Warrant entitles the holder to acquire one Common Share at a price of \$0.40 per share for a period of 24 months from the date of issuance, subject to earlier expiry where the Common Shares trade at \$0.70 or higher on the Exchange for 20 consecutive trading days and the cumulative trading volume of the Common Shares is equal to at least 500,000 Common Shares during that period.

At December 31, 2006, a total of 6,599,885 Units were sold pursuant to the Offering. This resulted in a total number of 3,299,942 Share Purchase Warrants. The warrants will expire between August 18, 2008 and October 6, 2008. They are exercisable into common shares in the Company at an exercise price of \$0.40.

The following table sets out Share Purchase Warrants to acquire common shares outstanding as at December 31, 2006:

Number of Warrants	Number of Shares on Exercise of Warrants	Exercise Price	Expiry Date
1,648,583	1,648,583	\$0.40	August 18, 2008
141,999	141,999	\$0.40	September 21, 2008
<u>1,509,360</u>	<u>1,509,360</u>	<u>\$0.40</u>	<u>October 6, 2008</u>
<u>3,299,942</u>	<u>3,299,942</u>		

The fair value of the warrants issued during the year has been determined using the Black-Scholes valuation model. The value attributed to Share Purchase Warrants at December 31, 2006 based on management's best estimates is \$66,692.

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**15. Share capital (continued)**

At the closing date, the per share fair value of the warrants issued and other assumptions, using the Black-Scholes pricing model are as follows:

	<b>2006</b>
Estimated per share fair value per warrant	0.062
Risk-free interest rate	4.2%
Expected life	2 years
Expected volatility in stock price	50 %
Expected annual dividend yield	0%

*Agent's Warrants*

The Agent and its sub-agents, if any, received a non-transferable warrant (the "Agent's Warrant") to purchase that number of Units equal to 8.5% of the Units placed, each such Agent's Warrant entitling the holder thereof to purchase one Unit at an exercise price of \$0.30 per Unit for a period of 12 months from the Closing Date.

The following table sets out the Agent's Warrants to acquire Units as at December 31, 2006:

Agent's Warrants	Number of Units on Exercise of		Exercise Price	Expiry Date
	Agent's Warrants	Agent's Warrants		
280,260	280,260	280,260	\$0.30	August 18, 2007
24,140	24,140	24,140	\$0.30	September 21, 2007
256,591	256,591	256,591	\$0.30	October 6, 2007
560,991	560,991	560,991		

All of the warrants were granted as a result of the Offering and therefore related to the December 31, 2006 year-end. There were no other warrants granted or exercised during the period. The value attributed to Agent's Warrants at December 31, 2006 based on management's best estimates is \$5,972.

*Share acquisition loans*

Share acquisition loans of \$113,125 were issued to management in previous years to purchase shares of the Company. \$90,000 of this amount was due on December 31, 2006 with the balance due on December 31, 2007. The loans bear no interest. Effective December 31, 2006 the loans due December 31, 2006 were converted to demand loans. The loans have been included as a reduction of share capital.

**16. Related party transactions**

During 2006, the Company transacted business with a company whose owner and director was a director and shareholder of the Company. This business involved the factoring of receivables as required by the Company. The total receivable amount factored by this related party during the period amounted to \$1,011,765. (December 31, 2005 - \$2,011,772), of which \$Nil is due to the related party at December 31, 2006 (December 31, 2005 - \$693,698). During the year, the Company paid or accrued interest in the amount of \$44,831 (December 31, 2005 - \$65,860) to this related party, of which, \$Nil (December 31, 2005 - \$22,469) is included in accounts payable and accrued liabilities at December 31, 2006. During the last quarter of 2006 all factoring amounts together with accrued interest were repaid as the facility was replaced with a bank operating line.

During the year, the Company incurred legal fees from a firm which employs two of the directors of the Company in the amount of \$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

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**16. Related party transactions**

31, 2006 is \$18,023 payable to the same legal firm.

Included in accounts payable are wages and other amounts payable or reimbursable to employees and contractors who are shareholders of \$9,688 (December 31, 2005 - \$29,947).

Included in current portion of notes payable is an amount due to a shareholder/director of \$80,933 (December 31, 2005 - \$80,933) and also includes a balance due to an immediate family member of a shareholder of \$75,367 (December 31, 2005 - \$75,367), both of which are due and payable on December 31, 2007. (See Note 10). Interest paid on these loans in 2006 totalled \$17,193 (December 31, 2005: \$17,193).

The above transactions were conducted in the normal course of operations and are measured by the exchange amount, which is the amount of consideration established and agreed to by the related parties.

During the year, an employee who is a shareholder/director of the Company advanced \$53,500 to the Company. The amount advanced was repaid by December 31, 2006. Interest accrued on this loan to December 31, 2006 totalled \$1,393.

**17. Commitments**

At December 31, 2006, the Company had operating lease commitments for vehicles for the twelve month periods as follows:

2007	22,984
2008	12,890
2009	12,890
2010	11,815

**18. Income taxes**

The income tax expense differs from the amount computed by applying the statutory provincial and federal income tax rates to the respective year's losses before income taxes. The differences result from the following items:

	2006	2005
Expected tax recovery at 32.12% (2005 – 15.12%)	(246,385)	(80,162)
Decrease (increase) resulting from:		
Stock based compensation	46,433	8,558
Effect of income tax rate adjustments	(536,735)	-
Change in valuation allowance	736,687	71,604
<b>Income tax expense</b>	-	-

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**18. Income taxes (continued)**

Future income tax assets and liabilities are recognized for temporary differences between the carrying amount of the assets and liabilities for accounting and tax purposes. The tax effects of deductible temporary differences that give rise to the Company's future tax assets are as follows:

	<i>2006</i>	<i>2005</i>
Non-capital losses carried forward	1,626,274	718,219
Share issuance costs	3,476	4,635
Capital and other assets	<u>(261,295)</u>	<u>(92,245)</u>
	1,368,455	630,609
Valuation allowance	<u>(1,368,455)</u>	<u>(630,609)</u>
<b>Future income tax asset</b>	<b>-</b>	<b>-</b>

**19. Financial instruments**

The Company, as part of its operations, carries a number of financial instruments. It is management's opinion that the Company is not exposed to significant interest rate, currency or credit risks arising from these financial instruments except as otherwise disclosed.

*Credit risk*

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of trade accounts receivable. At December 31, 2006, five customers accounted for 77% of accounts receivable (December 31, 2005 – four customers, 76%). For the year ended December 31, 2006, five customers comprise 68% of sales (2005 – three customers comprised 54% of sales).

*Foreign currency risk*

The Company enters into transactions denominated in United States currency for which the related revenues, expenses, accounts receivable and accounts payable balances are subject to exchange rate fluctuations. As at December 31, 2006 and December 31, 2005, there were no material items denominated in United States currency.

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**19. Financial instruments (continued)**

*Fair value of financial instruments*

The carrying amount of cash, accounts receivable, accounts payable, accrued liabilities and notes payable approximates their fair value due to the short-term maturities of these items.

The fair value of the Company's long-term financial instruments is estimated using discounted cash flow analysis based on market rates for such instruments with similar terms and risks. Fair values are based on management's best estimates after consideration of current market conditions. The estimates are subjective and involve considerable judgment, and as such are not necessarily indicative of the amounts that the Company may incur in actual market transactions. Based on these assumptions, the fair values of these instruments as at December 31, 2006 are as follows:

<u>December 31, 2006</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Difference</u>
Due from affiliate	8,696	8,696	-
Notes payable	156,300	156,300	-
AFSC loan payable	227,684	182,787	44,897
Capital lease obligations	42,943	29,224	13,719
<u>December 31, 2005</u>			
Due from affiliate	5,139	5,139	-
Notes payable	156,300	142,077	14,223
AFSC loan payable	354,150	279,050	75,100
Capital lease obligations	61,675	45,470	16,205
Convertible loans	1,228,830	1,228,830	-

The Company has not written down the above financial instruments to fair value as at December 31, 2006 because it does not anticipate any reductions in the cash amount that must be repaid in the future.

**20. Subsequent events**

Subsequent to year-end, in April 2007 the Company entered into an agreement to extend its operating line to \$1.5 million from \$750,000 (see note 9), with all other terms to the operating line remaining unchanged.

**21. Comparative figures**

Certain comparative figures have been reclassified to conform to the current year's presentation.