

CEMATRIX CORPORATION
Consolidated Financial Statements
Second Quarter Ended June 30, 2006

(Unaudited)

CEMATRIX CORPORATION
Notice of No Auditor Review of Interim Financial Statements
Second Quarter Report for the Six Months Ended June 30, 2006

To the Shareholders:

CEMATRIX CORPORATION

The accompanying unaudited consolidated financial statements for the second quarter ended June 30, 2006 of CEMATRIX CORPORATION have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor, Meyers Norris Penny LLP, has not performed a review of these financial statements.

August 29, 2006

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

| | <i>June 30, 2006</i> <i>(unaudited)</i> | <i>December 31, 2005</i> |
|---|--|--------------------------|
| Assets | | |
| Current | | |
| Cash | 60,959 | 1,523 |
| Accounts receivable <i>(Note 5)</i> | 438,800 | 1,273,822 |
| Inventory | 296,700 | 236,388 |
| Prepaid expenses and deposits | 34,381 | 9,086 |
| | 830,840 | 1,520,819 |
| Property, plant and equipment <i>(Note 6)</i> | 1,262,644 | 1,264,022 |
| Due from affiliate <i>(Note 7)</i> | 8,195 | 5,139 |
| Patents, trademarks and technology <i>(Note 8)</i> | 523,378 | 527,878 |
| Product development costs <i>(Note 9)</i> | 359,667 | 393,268 |
| | 2,984,724 | 3,711,126 |
| Liabilities | | |
| Current | | |
| Accounts payable and accrued liabilities <i>(Note 5)</i> | 1,161,755 | 1,751,055 |
| Current portion of technology agreements payable <i>(Note 11)</i> | - | 50,000 |
| Current portion of Agriculture Financial Services Corporation loan payable | 139,524 | 124,303 |
| Current portion of capital lease obligations | 23,418 | 25,036 |
| | 1,324,697 | 1,950,394 |
| Notes payable <i>(Note 10)</i> | 156,300 | 156,300 |
| Agriculture Financial Services Corporation loan payable <i>(Note 12)</i> | 227,017 | 229,847 |
| Capital lease obligations <i>(Note 13)</i> | 52,758 | 61,675 |
| | 1,760,772 | 2,398,216 |
| Shareholders' Equity | | |
| Share capital <i>(Note 15)</i> | 5,363,702 | 4,224,871 |
| Contributed surplus <i>(Note 15)</i> | 194,508 | 56,603 |
| Equity portion of convertible loans <i>(Note 14)</i> | 100,000 | 1,228,830 |
| Deficit | (4,434,258) | (4,197,394) |
| | 1,223,952 | 1,312,910 |
| | 2,984,724 | 3,711,126 |

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

CEMATRIX CORPORATION
Consolidated Statements of Loss and Deficit
For the second quarters ended June 30
(Unaudited)

| | Three-months ended June | | Six-months ended June | |
|--|-------------------------|-------------|-----------------------|-------------|
| | 2006 | 2005 | 2006 | 2005 |
| Revenue | 233,779 | 633,944 | 837,175 | 752,261 |
| Cost of sales | 203,946 | 405,602 | 582,669 | 488,788 |
| Gross Margin | 29,833 | 228,342 | 254,506 | 263,473 |
| Expenses | | | | |
| Finance | 31,291 | 69,970 | 143,158 | 116,383 |
| General and administrative | 107,378 | 67,587 | 205,423 | 129,070 |
| Operations administration | 29,193 | 10,549 | 57,171 | 39,047 |
| Sales and marketing | 91,117 | 123,461 | 208,829 | 224,206 |
| Technical and development | 34,649 | 29,821 | 70,319 | 61,742 |
| Stock based compensation | 84,206 | - | 84,206 | - |
| Amortization of patents, trademarks and technology | 2,250 | 2,250 | 4,500 | 4,500 |
| Amortization of product development costs | 56,723 | 75,874 | 116,123 | 151,749 |
| Amortization of property, plant and equipment | 29,410 | 34,936 | 60,887 | 69,979 |
| Costs allocated to product development | (51,022) | (28,635) | (96,022) | (83,635) |
| | 415,195 | 385,813 | 854,594 | 713,041 |
| Net operating loss for the period | (385,362) | (157,471) | (600,088) | (449,568) |
| Other non-operating (income) expenses (Note 16) | - | - | 2,072 | - |
| Related party transaction (Note 17) | - | (34,578) | - | (34,578) |
| Net loss for the period | (385,362) | (192,049) | (598,016) | (484,146) |
| Deficit, beginning of period | (4,410,048) | (3,924,738) | (4,197,394) | (3,632,641) |
| Deficit due to Amalgamation (Note 2) | 549,500 | - | 549,500 | - |
| Costs of Amalgamation (Note 2) | (188,348) | - | (188,348) | - |
| Deficit, end of quarter | (4,434,258) | (4,116,787) | (4,434,258) | (4,116,787) |
| Loss per share | | | | |
| Basic | (0.017) | (0.008) | (0.026) | (0.021) |
| Fully-diluted | (0.016) | (0.008) | (0.025) | (0.021) |
| Weighted average number of common shares | | | | |
| Basic | 23,198,763 | 23,281,162 | 23,198,763 | 23,281,162 |
| Fully-diluted | 24,038,763 | 23,281,162 | 24,043,763 | 23,281,162 |

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

CEMATRIX CORPORATION
Consolidated Statements of Cash Flows
For the second quarters ended June 30
(Unaudited)

| | Three-months ended | | Six-months ended | |
|---|--------------------|-----------|------------------|-----------|
| | 2006 | 2005 | 2006 | 2005 |
| Cash provided by (used in): | | | | |
| Operating activities | | | | |
| Net loss for the period | (385,362) | (192,049) | (598,016) | (484,146) |
| Items not affecting cash | | | | |
| Amortization of patents, trademarks and technology | 2,250 | 2,250 | 4,500 | 4,500 |
| Amortization of product development costs | 56,723 | 75,874 | 116,123 | 151,749 |
| Amortization of property, plant and equipment | 29,410 | 34,936 | 60,887 | 69,979 |
| Stock-based compensation expense | 84,206 | - | 84,206 | - |
| Loss on write-down of investment | - | 34,578 | - | 34,578 |
| | (212,773) | (44,411) | (332,301) | (223,340) |
| Net change in non-cash working capital items | 81,382 | 82,497 | 230,159 | 257,545 |
| | (131,392) | 38,086 | (102,142) | 34,205 |
| Investing activities | | | | |
| Purchase of property, plant and equipment | (48,181) | (584,783) | (59,509) | (598,678) |
| Investment in affiliate | (3,056) | (54,466) | (3,056) | (55,946) |
| Product development costs incurred net of Investment Tax Credit adjustments | (51,021) | (28,385) | (82,521) | (34,214) |
| | (102,258) | (667,634) | (145,086) | (688,838) |
| Financing activities | | | | |
| Repayment of capital lease obligations | (3,886) | (7,978) | (8,917) | (13,548) |
| Issuance of common stock | - | 150,050 | 1,138,831 | 201,300 |
| Conversion of convertible debt | - | - | (1,138,831) | - |
| Increase in convertible debt | - | 30,000 | 10,001 | 68,830 |
| Technology agreement payments | - | - | - | (50,000) |
| Elimination of inter-company loan | (25,000) | - | - | - |
| Equipment acquisition agreement payable | - | 511,144 | - | 511,144 |
| Financing additions to contributed surplus | 53,699 | - | 53,699 | - |
| Repayment of debentures | - | (40,000) | - | (40,000) |
| Change in Agricultural Financial Services Corporation loan | 4,627 | 7,507 | (2,830) | 8,756 |
| Charge to Retained Earnings due to Qualifying Transaction (Note 2) | (188,348) | - | (188,348) | - |
| | (158,908) | 650,723 | (136,395) | 686,482 |
| Increase (decrease) in cash | (392,558) | 21,175 | (383,623) | 31,849 |
| Cash acquired upon Amalgamation (Note 1) | 443,059 | - | 443,059 | - |
| Cash, beginning of period | 10,458 | 11,556 | 1,523 | 882 |
| Cash, end of period | 60,959 | 32,731 | 60,959 | 32,731 |
| Supplementary cash flow information: | | | | |
| Interest paid | 31,291 | 69,970 | 143,158 | 116,383 |

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

CEMATRIX CORPORATION

Notes to the Consolidated Financial Statements

For the second quarter ended June 30, 2006 (Unaudited) and the year-ended December 31, 2005

1. Incorporation and operations

CEMATRIX Corporation (the "Company") was incorporated on March 22, 2005 under the *Business Corporations Act (Alberta) (the "ABCA")* 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 a "three cornered 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 the "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 and employees of the Company. (See note 15 Share Capital).

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 retained earnings 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 and removing the condition of the Company as a Capital Pool Company totaling \$188,348 have been charged to Retained Earnings in accordance with Guidance provided from EIC 10.

CEMATRIX CORPORATION

Notes to the Consolidated Financial Statements

For the second quarter ended June 30, 2006 (Unaudited) and the year-ended December 31, 2005

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 six month period ended June 30, 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.

3. Going concern

As the Company is in its development stage, it has incurred recurring operating losses resulting in an accumulated deficit of \$(4,434,258) (December 31, 2005 - \$4,197,394) and a working capital deficiency of (\$493,857) (December 31, 2005 – (\$429,575)). 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 realized. 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 |
| Buildings | 5% 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 at one-half of the annual rate 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 and be 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.

Discounted future cash flows are used to measure fair value of long-lived assets.

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 amount of equity is accreted over the term to maturity of the financial instrument through periodic charges to retained earnings or deficit. The

CEMATRIX CORPORATION
Notes to the Consolidated Financial Statements

For the second quarter ended June 30, 2006 (Unaudited) and the year-ended December 31, 2005

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

Revenue is recognized on a monthly basis to the extent of work completed on projects and upon shipment of products to customers.

Investment tax credits

The Company is 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. Subsidiaries are translated using the temporal method and any translations gains or 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 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 and agreements for sale 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.

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Notes to the Consolidated Financial Statements

For the second quarter ended June 30, 2006 (Unaudited) and the year-ended December 31, 2005

4. Significant accounting policies (continued)

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.

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). 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 June 30, 2006, the tax credits recoverable were estimated at \$137,226 (December 31, 2005 - \$226,442) of which \$13,500 relates to expenditures made in 2006, \$71,866 relates to expenditures in 2005 and \$51,860 relates to expenditures in 2002. During the six month ended June 30, 2006, \$102,716 in tax credits from fiscal 2004 were received by the Company.

The Company has 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 is repaid upon collection of the related receivable. As the Company retains significant risks relating to the accounts receivable being sold, the accounts receivable remain in the Company's financial statements and the amounts advanced by the purchaser are 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 \$406,606 (December 31, 2005 - \$919,780). The outstanding amount bears interest at 2 - 2.5% per month and is secured by the specific receivable. At June 30, 2006, accounts payable and accrued liabilities includes \$287,012 (December 31, 2005 - \$693,698) relating to this credit facility.

6. Property, plant and equipment

| | <i>Cost</i> | <i>Accumulated Amortization</i> | <i>2006 Net Book Value</i> | <i>2005 Net Book Value</i> |
|--|------------------|-------------------------------------|------------------------------------|------------------------------------|
| Automobiles | 78,344 | 45,012 | 33,332 | 39,218 |
| Buildings and leasehold improvements | 39,100 | 37,243 | 1,857 | 2,026 |
| Computer equipment and software | 97,048 | 67,328 | 29,720 | 26,069 |
| Equipment and cellular material processors | 932,151 | 480,697 | 451,454 | 479,612 |
| Equipment - dry mix processors | 743,822 | 5,657 | 738,165 | 708,508 |
| Furniture and fixtures | 21,974 | 13,858 | 8,116 | 8,589 |
| | 1,912,439 | 649,795 | 1,262,644 | 1,264,022 |

During the second quarter ended June 30, 2006, additions to property, plant and equipment totalled \$59,509 (December 31, 2005 - \$759,172) of which \$2,134 (December 31, 2005 - \$nil) were acquired by means of capital leases, \$57,375 (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 \$290,142 (December 31, 2005 - \$288,008) and accumulated amortization of \$156,354 (December 31, 2005 - \$155,314).

7. Due from affiliate

Amounts due from subsidiary are unsecured, non-interest bearing and have no fixed repayment terms.

CEMATRIX CORPORATION

Notes to the Consolidated Financial Statements

For the second quarter ended June 30, 2006 (Unaudited) and the year-ended December 31, 2005

9. Product development costs

| | <i>Cost</i> | <i>Accumulated Amortization</i> | <i>2006 Net Book Value</i> | <i>2005 Net Book Value</i> |
|---------------------------|-------------|-------------------------------------|------------------------------------|------------------------------------|
| Product development costs | 1,489,789 | 1,130,122 | 359,667 | 393,268 |

Product development costs capitalized during the first six of 2006 amounted to \$96,022 (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 \$Nil (December 31, 2005 - \$31,421) were applied to reduce this balance. Amortization of product development cost of \$116,123 (June 30, 2005 - \$151,749) was charged during the period.

10. Notes payable

Notes payable are due on January 31, 2007 and bear interest at an annual rate of 11% calculated and payable quarterly. The notes payable are due to related parties as described in Note 18. Finance expenses include interest on the notes payable of \$8,597 (June 30, 2005 - \$8,597).

11. Technology agreements payable

During 2001, the Company entered into an agreement to purchase a foaming agent technology for \$350,000. At June 30, 2006, \$nil (December 31, 2005 - \$50,000) remained payable. The agreement payable bears no interest.

12. Agriculture Financial Services Corporation loan payable

During the year-ended December 31, 2005, the Company borrowed \$300,000 from the Agricultural Financial Services Corporation ("AFSC") (formerly the Alberta Opportunity Company) 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 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 the equipment financed having a net book value of \$569,349 (December 31, 2005 - \$571,500) 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 June 30, 2006, \$283,603 (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 \$93,292 (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 are made July to December each year until the balance is paid, with the final payment being due December 1, 2006. At June 30, 2006, \$82,938 (December 31, 2005 - \$80,303) of this loan is unpaid.

Finance expenses include interest on AFSC loans in the amount of \$12,390 (June 30, 2006 - \$7,500).

CEMATRIX CORPORATION

Notes to the Consolidated Financial Statements

For the second quarter ended June 30, 2006 (Unaudited) and the year-ended December 31, 2005

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 \$5,309 and mature from April 2006 to October 2008. The annual future commitments under the leases are as follows:

| | |
|-----------------------|--------|
| 2006/2007 | 30,988 |
| 2007/2008 | 41,355 |
| 2008/2009 | 16,327 |
| 2009/2010 | 443 |
| | <hr/> |
| | 89,113 |
| Less imputed interest | 12,937 |
| | <hr/> |
| | 76,176 |
| Current portion | 23,418 |
| | <hr/> |
| | 52,758 |
| | <hr/> |

Finance expenses include interest on capital lease obligations in the amount of \$5,506 (June 30, 2005 - \$7,295).

14. Convertible loans

- Series V debenture is a one-year convertible, redeemable 11% debenture with interest payable quarterly, maturing January 1, 2007. The debenture is convertible at \$2.00 per common share
- The convertible loan was due January 1, 2007 and bore interest at 11% per annum. The loan automatically converted into 3,750,000 common shares of the Company upon approval of the amalgamation with a Capital Pool Company. (See Note 15 and 22).
- The promissory note was due December 31, 2006 and bore interest at 12% per annum. The promissory note automatically converted into 1,250,000 common shares of the Company upon approval of the amalgamation with a Capital Pool Company. (See Note 15 and 22).

Finance charges include interest on debentures, convertible loans and convertible notes payable of \$38,915 (June 30, 2005 - \$ 65,304).

| | 2006 | 2005 |
|-------------------------------------|---------|-----------|
| Series V debenture | 100,000 | 100,000 |
| Convertible loan | - | 840,000 |
| Convertible promissory note | - | 288,830 |
| | <hr/> | <hr/> |
| Convertible loans | 100,000 | 1,228,830 |
| | <hr/> | <hr/> |
| Equity portion of convertible loans | 100,000 | 1,228,830 |
| | <hr/> | <hr/> |

The liability component of the convertible debentures is calculated at an interest rate applicable to non-convertible debt. The equity portion of the convertible debt is accreted over its term to the full face value by charges to retained earnings or deficit. Series II and V debentures matured during the 2005 year-end. On December 23, 2005 the Series V - 10% debenture was extended for one year bearing interest at 11%.

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Notes to the Consolidated Financial Statements

For the second quarter ended June 30, 2006 (Unaudited) and the year-ended December 31, 2005

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> |
|---|-----------------------------|------------------------|-----------------------------|------------------------|
| 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 17) | | | 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) | - | - | - |
| Shares of New CEMATRIX issued upon amalgamation | 23,281,162 | - | - | - |
| Beginning of year – CEMATRIX Corporation | 3,095,000 | - | - | - |
| Common shares – end of period | 26,376,162 | 5,363,702 | 17,587,010 | 4,224,871 |

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 CEMATRIX became a wholly-owned subsidiary of the Company.

Common share options

The Company has an option plan for the issue of up to 10% of the common shares of the Company.

Stock options to purchase common shares at \$0.20 and \$0.30 per share were issued to directors, consultants and managers of the Old CEMATRIX in prior years, totalling 840,000 at December 31, 2005. These options were cancelled and new five year options were issued with an exercise price of \$0.30 per share, effective the date of closing of the Acquisition. The Company had previously issued 309,500 options, resulting in a total of 1,149,500 stock options at the end of the first quarter of 2006. During the second quarter of 2006, an additional 1,075,000 in stock options were issued to directors, and officers of the Company, resulting in a total of 2,224,500 options outstanding at June 30, 2006 and exercisable at prices varying between \$0.30 and \$0.35 per share. All options that are outstanding will expire during the time from April 2010 to May 2011 or earlier if the optionee ceases to be a director, officer or employee or there is a merger, amalgamation or change in control of the Company. All options vest at the date of grant. During the second quarter, the per share fair value of the options granted amounts to \$0.16 (December 31, 2005: \$0.15) at the date of grant using the Black-Scholes option pricing

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Notes to the Consolidated Financial Statements

For the second quarter ended June 30, 2006 (Unaudited) and the year-ended December 31, 2005

15. Share capital (continued)

model with the following assumptions: expected life of five years (December 31, 2005: three years), dividend yield of nil, a risk-free interest rate of 5.00% (December 31, 2005: 4.00%) and expected volatility of 50% (December 31, 2005: 80%). Stock based compensation of \$84,206 (December 31, 2005: \$20,947) has been recognized as an expense and an increase in contributed surplus in these financial statements.

Share acquisition loans

Share acquisition loans of \$113,125 were issued to management in previous years to purchase shares of the Company. The loans bear interest at the rates set by Canada Revenue Agency and are repayable on demand or no later than December 31, 2007. The loans have been included as a reduction of share capital.

Escrow securities

The Company has a total of 5,353,733 Common Shares held in escrow and 182,500 are subject to Exchange required resale restrictions.

16. Other non-operating (income) expenses

Other non-operating income consists of interest income of \$Nil (June 30, 2005: \$2,072).

17. Subsidiary

As described in note 1 to the financial statements, the Acquisition has been accounted for as a capital transaction. Through its wholly owned subsidiary, New CEMATRIX, the Company owns 100% of the shares in CEMATRIX (Calgary) Ltd. with an initial investment made in 2001 of \$50 for 50% of the common shares and \$50,000 cash for start-up costs. On June 30, 2005, the remaining 50% interest was purchased 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 Company's 100% interest was accounted for using the purchase method.

The purchase price was allocated primarily to patents 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 June 30, 2005 quarter ended.

18. Related party transactions

During the first quarter of 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. Receivables factored by this related party during the period amounted to \$1,066,015 (December 31, 2005 - \$2,011,772), of which \$403,404 is due to the related party at June 30, 2006 (December 31, 2005 - \$693,698). The Company paid or accrued interest in the amount of \$53,621 (June 30, 2005 - \$11,943) to this related party, of which, \$14,129 is included in accounts payable and accrued liabilities at June 30, 2006 (December 31, 2005 - \$22,469).

During the quarter ended June 30, 2006 the Company expensed legal fees from a firm which employs two of the directors of the Company in the amount of \$33,702. 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 June 30, 2006 is \$92,460 payable to the same legal firm, which includes amounts charged directly to Retained Earnings.

Included in accounts payable are wages and other amounts payable to employees who are shareholders of \$4,103 (December 31, 2005 - \$29,947).

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Notes to the Consolidated Financial Statements

For the second quarter ended June 30, 2006 (Unaudited) and the year-ended December 31, 2005

18. Related party transactions (continued)

Included in notes payable is an amount due to a shareholder of \$80,933 (December 31, 2005 - \$80,933) and a balance due to an immediate family member of a shareholder of \$75,367 (December 31, 2005 - \$75,367).

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.

19. Commitments

At June 30, 2006, the Company had operating lease commitments for vehicles for the six month period as follows:

| | |
|------|--------|
| 2006 | 18,121 |
| 2007 | 10,953 |
| 2008 | 1,717 |

20. Income taxes

The Company has accumulated non-capital losses of approximately \$4,882,987 (December 31, 2005 - \$4,284,971) for income tax purposes which will be available to reduce taxable income in future years. These losses, if unused, expire between 2006 and 2014. The potential benefit of using these losses has not been recognized in these consolidated financial statements, except to the extent used to offset future tax liabilities. The Company has accumulated temporary differences relating to property, plant and equipment, product development costs and patents, trademarks and technology which give rise to a future tax liability of \$141,252 (December 31, 2005 - \$141,252) which has been offset by future tax benefits relating to the accumulated losses.

21. 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 June 30, 2006, four customers accounted for 71% of accounts receivable (December 31, 2005 – four different customers, 76%). For the quarter ended June 30, 2006, five customers comprise 74% 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 June 30, 2006 and December 31, 2005, there were no items denominated in United States currency.

Fair value of financial instruments

The carrying amount of cash, accounts receivable, accounts payable and accrued liabilities, and the current portion of technology agreements payable, AFSC loan payable, and capital lease obligations approximates their fair value due to the short-term maturities of these items.

CEMATRIX CORPORATION
Notes to the Consolidated Financial Statements

For the second quarter ended June 30, 2006 (Unaudited) and the year-ended December 31, 2005

21. Financial instruments (continued)

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 June 30, 2006 are as follows:

| <u>June 30, 2006</u> | <u>Carrying Amount</u> | <u>Fair Value</u> | <u>Difference</u> |
|---------------------------|----------------------------|-----------------------|-------------------|
| Due from affiliate | 8,195 | 8,195 | - |
| Notes payable | 156,300 | 142,077 | 14,223 |
| AFSC loan payable | 366,541 | 330,113 | 36,428 |
| Capital lease obligations | 52,758 | 38,898 | 13,860 |
| Convertible loans | 100,000 | 93,450 | 6,550 |
| | | | |
| <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 June 30, 2006 because it does not anticipate any reductions in the cash amount that must be repaid in the future.

22. Subsequent events

On July 18, 2006 the Company announced its intention to raise up to \$2,000,000 by way of a TSX Venture Exchange short form offering document dated July 18, 2006 (the "Offering Document"). A total of up to 6,666,666 units (the "Units") will be offered for sale at a price of \$0.30 per Unit. Each Unit will consist 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 will entitle 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 the closing of the Offering (the "Closing"), subject to earlier expiry in certain circumstances where the Common Shares trade at \$0.70 or higher on the Exchange for 20 consecutive trading days. The Offering is subject to the approval of the Exchange.

Integral Wealth Securities Limited (the "Agent"), agreed to act as agent for the Offering on a commercially reasonable best efforts basis and will receive a cash commission equal to 8.5% of the gross proceeds received by the Company. The Agent will also receive an option to purchase that number of Units equal to 8.5% of the Units sold exercisable at a price of \$0.30 per Unit for a period of 12 months from the Closing.

On August 18, 2006, the Company completed the initial closing of Units pursuant to the Offering Document. A total of 3,297,167 Units were issued at a price of \$0.30 per Unit for total gross proceeds of \$989,150. Net proceeds to the Company after the Agent's commission and the Agent's legal costs is \$879,525.

The Company will use the proceeds of the Offering for capital expenditures, the retirement of debt, to meet the Company's bonding requirements and for general working capital purposes.

CEMATRIX CORPORATION
Notes to the Consolidated Financial Statements

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23. Comparative figures

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