

**CEMATRIX CORPORATION**  
**Management's Discussion and Analysis**  
*Year Ended December 31, 2009*

Date Completed: March 16, 2009

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

**Form 51-102F1 - Management's Discussion & Analysis**  
**For the Year Ended December 31, 2009**

*The following is the management's discussion and analysis ("MD&A") of CEMATRIX Corporation ("CEMATRIX" or the "Company") for the year ended December 31, 2009. This MD&A should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2009 and the related notes thereto and the audited financial statements and MD&A of the Company for the year ended December 31, 2008 and related notes thereto. The consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). All dollar figures included therein and in this MD&A are in Canadian dollars.*

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

The Audit Committee of the Company reviewed and recommended for approval by the Board of Directors of the Company the 2009 audited consolidated financial statements and MD&A for the year ended December 31, 2009 and the Board of Directors of the Company has reviewed and approved them on March 16, 2010.

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**Appendix A – Forward Looking Statements**

## **Forward Looking Statements**

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

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

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

The Company has discussed, in Section D. – Key Market Drivers and in Section E. - Key Risks and Uncertainties of its MD&A the significant market drivers and risk factors that affect its business and could cause actual results to differ materially from the forward-looking information disclosed herein. The Company cautions the reader that these factors are not exhaustive. The risk factors that could lead to differences in business results and which could cause actual results to differ materially from the forward-looking information disclosed herein include, without limitation, legislative and regulatory developments that may affect costs, revenues, the speed and degree of competition entering the market, global capital markets activity, timing and extent of changes in prevailing interest rates, inflation levels and general economic conditions in geographic areas where the Company operates, results of financing efforts, changes in counterparty risk and the impact of accounting standards issued by Canadian standard setters.

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

## **A. Purpose of the Company's MD&A**

The purpose of this MD&A is to provide a narrative explanation, through the eyes of management, to assist the reader in understanding the Company's performance for the year ended December 31, 2009, the Company's financial condition as at December 31, 2009 and its future prospects.

## **B. Corporate Overview and Highlights**

### *Overview of the business*

Through its wholly-owned subsidiary, CEMATRIX (Canada) Inc., the Company uses specially developed equipment and proprietary or exclusive use foaming agents to produce and pour cellular concrete for various applications in the infrastructure and oil sands/refinery construction markets.

Cellular concrete is a cement slurry based product that is combined with air to result in a very lightweight, foamed concrete-like material that has thermal insulating qualities with moderate structural strength. It is generally lighter than water and is a replacement for rigid and other types of insulation. Its main uses are as follows: the insulation of road bases; the protection of permafrost under buildings, utilities, roads and runways; the insulation of shallow utility installations; industrial and commercial floors including oil sands facilities, pile caps and tank bases; the replacement of weak and/or unstable soils and soils that are subject to seismic conditions; retaining wall backfill; grouting; and tunnel backfill.

The Company has two distinct types of production – dry mix, which is fully automated, including the cement slurry mixing process directly from cement and other dry powders, and permits the production of high hourly volumes; and wet mix, which is partially automated, except to the extent that the slurry required is delivered by a ready mix provider, and has lower hourly production capability.

Its fleet of production equipment consists of two dry mix units that can produce up to 150 cubic metres per hour of cellular concrete and four wet mix units that have the capability of producing 15 to 75 cubic metres per hour of cellular concrete. This fleet is mobile and can be moved to anywhere in North America.

The value proposition that CEMATRIX offers to customers is as follows:

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

The Company's customer service solution is supported by acquired and internally developed technologies that enable the production of high volumes of consistent, low density insulating cellular concrete; the North American exclusive rights to a protein based foaming agent and an acquired synthetic foaming agent formula; the proprietary material mix expertise; the engineering support for thermal and structural design to assist engineering firms in the design of applications for cellular concrete; and internally designed and constructed specialty equipment for the production of cellular concrete.

The Company's current market focus is in the infrastructure construction market in Western Canada, Ontario, the Northwest Territories and the United States and the oil and gas sector in Western Canada.

The Company's head office is located in Calgary, Alberta.

### *2009 annual overview and highlights*

2009 was a challenging year for the Company. The global economic downturn, which hit in the fall of 2008, and continued through most of 2009 turned 2009 from a year of opportunity and growth to one of just survival. A number of Alberta oil sands projects, which were contracted and/or scheduled to commence in 2009 using the Company's products, were deferred indefinitely. In addition, infrastructure investment announced by various governments to help stimulate the Canadian economy did not result in any significant additional work in 2009.

Given this economic situation, management's objective for 2009 was for the Company to work towards generating a breakeven operating cash position (before net change in non-cash working capital items) while positioning the Company for a recovery in the economy, particularly infrastructure construction in Western Canada and Ontario and oil sands development in the Fort McMurray area of Alberta. A number of projects which management had expected to proceed in 2009, based on discussions with clients, did not occur and as a result of this the Company did not achieve its objective of a breakeven operating cash position, however, the Company was successful in the expansion of its infrastructure market in other regions of Canada.

The Company has contracts in place for work in the Alberta oil sands and it has positioned itself for infrastructure work in Alberta, Ontario, British Columbia and the Northwest Territories by working towards or obtaining product approvals by regulating bodies of the various levels of government for the use of its cellular concrete product in these markets. Management expects that the effect of this focus on infrastructure projects will begin to be realized in 2010 and beyond and believes that its infrastructure sales will become the most significant portion of its annual sales base.

The Company survived 2009 with the revenues generated from this new infrastructure work, the careful management of its working capital and the introduction of cost savings including staff layoffs, salary and wage reductions and the curtailment of all discretionary spending.

From a financial perspective the Company's sales were down 50% to \$2,627,847 from \$5,293,247 in 2008 and down 65% from \$7,495,029 in 2007. The Company recorded a loss of \$1,309,804 compared with a loss of \$419,978 in 2008 and a profit of \$809,682 in 2007.

Some highlights for 2009 and early 2010 include:

- retained key operators and other staff;
- established a presence in the province of Ontario and completed its first project there;
- completed the construction of a new wet mix unit;
- engaged the employees in the development of a set of Company values and leadership characteristics;
- operated without any loss time incidents;
- expanded its infrastructure contacts in Ontario and British Columbia;
- entered into an agreement with the University of Alberta to continue to research and test the properties of cellular concrete;
- successfully completed a private placement debenture for \$500,000 in January 2010 to provide funding for working capital and capital additions; and
- entered into an agreement for investor and financial relations in February 2010.

### **C. Business Strategy for Growth and Shareholder Value Creation**

CEMATRIX's goal is to be the leading supplier of cellular concrete technology and solutions throughout North America. In order to accomplish this, CEMATRIX's strategy is to continue to build a strong foundation for its business from its base province, Alberta and then continue by opening new infrastructure construction markets throughout the balance of Canada and the United States.

This business strategy is centered on the following key elements:

- Recruitment and maintenance of an experienced and focused management team;
- Development and acquisition of technologies to maintain competitiveness;
- Localized development of key applications and markets to develop a strong foundation for future growth;
- Methodical regionalized expansion of developed applications;
- Development of strategic alliances to support research and development, supply of raw materials, products and growth; and
- Identification of acquisition opportunities that will provide regional growth.

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

The Company's initial applications for its products were in the infrastructure construction insulation area, including roads, shallow utilities and void fill/grouting. The development of these infrastructure markets continues. CEMATRIX is now in the process of expanding its infrastructure markets geographically into British Columbia and Eastern Canada and is reviewing possible opportunities in the United States, where the market for cellular concrete is more developed, particularly in the area of roof deck, tunnel grouting and certain geotechnical applications.

The current focus of the Company is on infrastructure applications in these new market territories, while continuing to develop its base oil sands and refinery applications in Alberta. CEMATRIX's overall marketing strategy is to focus on these two distinct market segments – infrastructure and oil and gas. The infrastructure market segment provides the opportunity for continued growth in sales, while working to reduce the effect of seasonality and the economic effect of volatile oil and gas prices on oil sands and refinery construction in Alberta.

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

The Company is addressing its equipment issues and planned market expansion together with the change in the size and nature of projects by engaging in the proprietary design of a new dry mix unit with improved mobility and internal bulk capability over its current dry mix units. As the Company is in the early stages of design, the final developed cost of this equipment cannot be reasonably estimated at this time. In 2009, the Company designing and completed the construction of a new wet mix unit at a cost of \$200,000.

#### **D. Key Market Drivers**

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

##### *Availability of capital for infrastructure construction*

Government funded infrastructure construction throughout Canada and the United States is dependent on the capital funding that is made available to the various municipal, provincial/state and federal governments to make these types of investments. This also affects the timing of projects with which the Company's products could be applicable. Both the Canadian and United States governments have

announced significant infrastructure programs, however, the benefit, if any, to CEMATRIX, will be dependent on the type and location of projects to which the infrastructure funds will be allocated.

The failure to convince the project design engineers to specify the Company's cellular concrete for these infrastructure projects or the allocation of infrastructure funds to projects that do not involve the use of Company's product could affect the growth and the Company's sales in this market.

*Availability of capital by companies to invest in oil and gas projects and the outlook for oil and gas prices*

The development of the oil sands and refineries in Alberta are partly dependent on the availability of capital to companies making these investments. The generation of internal capital by these companies was reduced significantly in 2009 with the dramatic drop in oil and gas prices. These prices had recovered somewhat by late 2009. The availability of capital affects the timing of projects for which the Company already has contracts for supply of cellular concrete and the commencement of other projects which could be specified to use various quantities of the Company's products. With the improvement in the capital markets and ability to generate internal capital, certain companies have recently announced the re-start of a number of their oil sands development projects.

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

Whether CEMATRIX will participate in these oil sand and refinery projects will be dependent on the Company's ability to convince the project design engineers of CEMATRIX's Value Proposition, which is largely dependent on the Company's experiences to date.

*Product Acceptance*

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

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

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

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

Many of these same engineering firms also operate where the Company is currently extending its market development focus, that being British Columbia, Ontario and other parts of Canada. The Company's current relationship with these engineering firms, the product experience in Alberta and the positive references from customers on completed projects should enable the Company to generate sales in these markets in a shorter timeframe than it experienced in Alberta. The Company's marketing efforts in these new territories have already resulted in new projects, a couple of which have been completed and one which, has been confirmed by purchase order and is scheduled for mid March 2010.

For some applications in these new territories, cellular concrete will also need to be accepted and become an approved product by various municipal and provincial government departments. In this regard the Company has prepared and filed a submission to the Ministry of Transportation of Ontario (the "MTO") for approval of the use of CEMATRIX cellular concrete as light weight material on projects for the MTO. A meeting has been scheduled by the MTO for late March 2010 to finalize the review of this application. In addition, the Company has filed for approval of its product for various applications by the British Columbia Ministry of Highways and the Alberta Ministry of Infrastructure and Transportation ("AMIT"). The AMIT has provided approval of cellular concrete for grouting and conditional approval for all other infrastructure applications pursued by the Company. In early March 2010 the Company also received notice from the Government of British Columbia that its product had been accepted as a recognized lightweight fill product and is now listed in the province's approved product list.

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

Product acceptance is important to support the Company's sales growth.

#### *Sole Source Provider*

When engineering firms and companies are considering specifying cellular concrete into a specific project, a concern that arises is the fact that CEMATRIX is the sole provider of cellular concrete in Alberta and for many other regions of Canada. Their concern is that if CEMATRIX is not available to complete their project, then there may be no one else that can do the work as specified. In many cases, this will mean that the project will have to be re-engineered because cellular concrete is not a one for one direct replacement to the products that it replaces. In some instances, owners of projects will not allow the use of a sole provider and others continue to be hesitant to do so, because the costs of re-engineering could be prohibitive. This practice has slowed the development of CEMATRIX's product penetration in Western Canada and has affected the development of other markets in Canada. The Company continues to work with customers, specifiers and design engineers to ensure that the benefits of the CEMATRIX products and services warrant the use of a sole source provider and to ensure these customers that CEMATRIX will be around to be that provider. If engineering firms and companies do not accept the nature of CEMATRIX being a sole source supplier this could affect the ability of the Company to grow its sales.

#### **E. Key Risks and Uncertainties**

Besides the issues discussed under Section D - Key Market Drivers, management has identified the following additional risks and uncertainties:

#### *Capital Resource Requirements*

Capital resource requirements must be matched to the demand for the Company's products. If demand increases more quickly than anticipated, the Company may be challenged to react quickly enough to realize the sales opportunities. The Company continues to evaluate various equipment options to enable the Company to be in a better position to react to these changing market conditions. However, there is no guarantee that financing would be available to fund new capital asset requirements, nor is there certainty

that the Company could react in a timely fashion to new capital asset requirements, even if the financing is available.

#### *Cement Supply*

The Company does periodically experience shortages in its key raw material, cement; particularly in the last few years, excluding 2009, given the demand for cement in the Western Canadian construction market. As there are alternatives to the Company's products, such as granular fills, rigid and other types of insulating materials that the Company's cellular concrete is replacing, shortages of cement may have an adverse affect on the Company's market development and forecasted sales. The Company continues to minimize the effect of this risk by working closely with the cement suppliers to secure cement as soon as the contract is executed and to alert them of future cement requirements as soon as they are known. Cement supply is currently in over supply in Western Canada and these same cement companies have informed CEMATRIX that there is an oversupply in Eastern Canada and the United States, as well.

The Company has experienced supply issues in past years with the supply of ready mix in Alberta for wet mix type projects, because of the high demand for this product arising from the economic growth experienced in these years. Constraints on the supply of ready mix can affect the ability of the Company to grow future sales. In those years where there are ready-mix supply constraints, the Company attempts to maximize the utilization of dry mix process equipment that uses cement powder, in lieu of ready-mix slurry, to meet market demands. Management is also evaluating future needs and the development of a mobile dry mix unit with internal bulk capacity, to compliment the two high volume dry mix process unit's already in use. The manufacture of this type of equipment for use in the Alberta market would reduce the Company's reliance on ready-mix products.

#### *Increasing Commodity Prices*

The price in Alberta of the Company's key raw materials, cement and flyash, had increased by over 32% over the past three years up to 2008. To date, the Company has been able to pass a significant portion of these price increases on to its customers. There is no certainty that this practice will continue in which case this would reduce the Company's profit margin on sales. The prices for these materials have held close to the 2008 levels in 2009 and the Company has been advised by its suppliers of minor increases for 2010. The Company is working towards minimizing any risk by developing equipment that will eliminate the need to rely on higher priced ready mix products for its raw material supply, for these types of projects. The prices for these key raw materials in British Columbia and Ontario are approximately 20% lower than in Alberta.

#### *Competition*

Although the Company is the only significant supplier of cellular concrete in Alberta and Canada, there are other suppliers in the United States and other countries, and accordingly the possibility of future competition exists. Competition could result in lost sales or reduced profit margins. The Company is positioning itself for competition with other suppliers, by ensuring that its costs are competitive in relation to costs being incurred by other companies in the industry; and striving to ensure that the Company provides the best in cellular concrete technology, including thermal modeling and structural design assistance, material mix designs, foaming agents and processing equipment.

#### *Product Warranties*

The Company has not experienced warranty claims during its existence due to the nature of its product and does not accrue any expense related to possible warranty claims. However, the potential exists for such claims being made and this could result in additional expenses. The Company works to minimize this risk through ongoing material mix, product and equipment development and by requiring highly trained quality control staff to be on hand for all projects to check and monitor all input and end product materials.

## **F. Operations and Overall Performance**

The results for 2009 are well below management's expectations, but are consistent with the significant decline in oil sands related construction brought about by the economic events of 2008. A few oil sands related projects are coming back on line. The benefit, if any, in the form of sales revenue for CEMATRIX, from these announcements will not be realized until 2010 and beyond.

During the past few years, oil sands related construction represented up to 90% of the Company's annual sales, with the balance coming from infrastructure construction, however this percentage has dropped to just above 60% for 2009 and most of this represented work carried out in the first part of the year. This was largely due to the decline in oil sands activity, but is also partly due to the Company's focus over the last year on developing its infrastructure construction business throughout Canada.

The decline in revenues has necessitated a continued reduction in manageable costs to ensure sufficient cash is available to fund the Company. To this end, management took steps in 2009 to reduce costs by completing staff layoffs, salary and wage cuts, reduced work hours and the elimination of all discretionary spending.

### *Results of Operations:*

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

The nature of the Company's sales is usually "one-off" type sales, meaning there is little in the way of carry over in sales from year to year; except to the extent that the Company has repeat business related to a specific application or location or a project is sufficiently large in scope, that it continues from one period to the next. The goal is to increase this type of repeatable and predictable source of revenue, both in Calgary and other developing markets.

The Company has two distinct types of production – dry mix, which is fully automated, including the cement slurry mixing process directly from cement and other dry powders, and permits the production of high hourly volumes and wet mix, which is partially automated, except to the extent that the slurry required is delivered by a ready mix provider, and has lower hourly production capability. The dry mix system enables the Company to improve the quality of its end product, while reducing its unit cost by up to 20% as compared to the wet mix process. However, the dry mix process is typically not suitable for small to medium sized projects requiring daily volume of less than 250 cubic metres of production or projects of less than 500 cubic meters of total requirements, due to the cost of mobilizing this equipment.

### *Year ended December 31, 2009*

Total revenue for the year ended December 31, 2009 was \$2,627,847 as compared to \$5,293,247 in 2008, a decrease of \$2,665,400 or 50%. Sales volumes were down 57% in 2009 as compared to 2008. The decrease in sales is principally the result of a decline in work in the Alberta oil and gas sector, compared with 2008. In 2008, the Company had over \$3.8 million in sales in the Alberta oil and gas sector. In 2009, sales were less than \$1.7 million. A number of oil sand projects were put on hold in early 2009. Some of these projects were restarted later in 2009 or are in the process of restarting but the Company did not benefit from work on these projects in 2009. In addition, infrastructure spending that was announced by various levels of governments did not result in any significant new projects for the Company in 2009.

The gross margin on sales was \$501,270 or 19.1 % in 2009 as compared to a \$1,555,473 or 29.4 % in 2008. This is due to significant reduction in sales volumes discussed above that resulted in the allocation of fixed costs to much lower sales volumes.

Total operating expenses for the year ended December 31, 2009 were \$1,778,129 as compared to \$1,944,013 for 2008. This \$165,884 or 8.5 % decrease is due to the following:

- General and administrative costs were down by \$52,647 – salaries and associated benefits were down \$26,014 due to the effect of pay cuts introduced in March 2009 and a reduction of work hours that was put in place effective September 1, 2009; legal and public company costs were lower by \$18,095 due to improved internal processes related to public company activities and other costs were down \$8,538 due to cost constraints put in place by the Company;
- Sales, marketing and engineering costs decreased by \$61,909 – salaries and associated benefits increased by \$14,093 – this was due to the hiring of a full time sales person for Ontario and one for the United States as the Company tried to grow these markets and was partially offset by the effect of pay cuts introduced in March 2009 and a reduction of work hours that was put in place effective September 1, 2009; sales commissions were down by \$39,699 as a result of the lower sales compared to 2008; marketing program costs were down \$30,707 as a result of cost constraints in 2009; other costs were down by \$5,596;
- Stock based compensation was lower by \$16,867 – the expense in 2009 of \$32,160 related to the options to purchase common shares of the Company which were granted in 2008 that vested over a two year period. The comparable expense in 2008 of \$49,027 relates to options granted in 2008 to some of the directors and officers of the Company, a portion of which vested immediately; and
- Depreciation and amortization decreased by \$34,461 – the amortization of intangibles decreased by \$52,888; product development costs are amortized over three years and the Company stopped capitalizing product development costs in 2006, these costs were fully amortized in 2009; property and equipment amortization increased by \$19,427 due to the higher asset base in 2009 compared to 2008.

Finance costs decreased by \$8,590 – this is principally due to lower interest on capital leases, down \$5,308, due to lower capital lease obligations as a result of obligation payments and the buyout of leases; lower interest of \$1,089 on the Company’s operating line of credit which was not utilized significantly in 2009; a decrease in other interest of \$3,803 - interest was incurred in 2008 relative to balances owing related to employee remittance for a U.S. based employee; and an increase of \$1,610 in 2009 in the interest related to the loans (the “AFSC Loans”) with the Agriculture Financial Services Corporation (“AFSC”) which is due to higher outstanding balances as a result of the new loan of \$200,000 in the spring of 2009 to build a new production unit as partially offset by lower interest rates.

Other non-operating income and (expenses) was an expense of \$6,525 in 2009 This primarily relates to the write off of licenses in CEMATRIX (Calgary) Ltd. that no longer have value (\$27,718) as partially offset by cost savings and other smaller items. The income reported in 2008 relates primarily to income earned on short term investments of \$4,806 and the gain on sale of assets of \$658.

A net loss for the year ended December 31, 2009 was \$1,309,804 compared with a net loss of \$419,978 for 2008. The 50 % drop in revenue in 2009 compared to 2008 resulted in lower margins which were partially offset by cost reductions undertaken by management in 2009.

*Quarter ended December 31, 2009*

Total revenues for the three months ended December 31, 2009 of \$165,134 were down by \$1,139,825 from the \$1,304,959 for the same period in 2008. The fourth quarter of 2008 benefited from projects in the Alberta oil sands sector. There was no comparable work in the fourth quarter of 2009.

The gross margin generated for the three months ending December 31, 2009 was a negative \$109,241 as compared to a positive \$381,617 in the same period in 2008. This reduction is due to the decline in sales discussed above which resulted in the allocation of fixed costs to the lower sales volume in 2009.

Total operating expenses for the quarter ended December 31, 2009 amounted to \$379,801 (2008 - \$517,130) a decrease of \$137,329. General and administrative and sales, marketing and engineering costs were down by up \$118,260 principally due to lower staff levels, wage and salary cuts and other cost

reduction items introduced in 2009 to compensate for the reduced sales activity. Other expenses were down \$19,069 principally due to lower amortization of intangibles. Product development costs are amortized over three years and the Company stopped capitalizing such cost in 2006. These costs were fully amortized in 2009.

The net loss for the quarter ended December 31, 2009 of \$492,312 compared to a loss of \$144,761 in the same period in 2008. The increase in the loss over the prior year of \$347,551 is a direct result of the significant drop in sales as offset partially by the Company's cost reduction efforts.

## G. Selected Financial Information and Summary of Financial Results

### Annual Results

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

Year Ended	Total Revenues	Net Income (Loss)	Net Income (Loss) Per Share		Total Assets	Total Non Current Liabilities
			Basic	Diluted		
	\$	\$	\$	\$	\$	\$
December 31, 2009	2,627,847	(1,309,804)	(0.04)	(0.04)	2,626,197	186,808
December 31, 2008	5,293,247	(419,978)	(0.01)	(0.01)	3,885,576	179,575
December 31, 2007	7,495,029	809,682	0.02	0.02	4,368,647	12,770

### Quarterly Results

Due to the seasonal nature of the Company's business, which typically follows the construction season in Western Canada, a significant portion of the Company's sales occur between the latter part of the second quarter and the first half of the fourth quarter, on an annual basis. The Company is pursuing other markets where seasonality is less of an issue. This seasonality is reflected in the quarterly results summarized in the table that follows:

Quarters Ended	Total Revenues	Net Income (Loss) Total	Net Income (Loss) Per Share	
			Basic	Diluted
	\$	\$	\$	\$
<b>2009 Year</b>				
March 31	345,962	(615,394)	(0.018)	(0.018)
June 30	1,183,667	(42,098)	(0.001)	(0.001)
September 30	933,084	(160,000)	(0.005)	(0.005)
December 31	165,134	(492,312)	(0.015)	(0.015)
Total for year	2,627,847	(1,309,804)	(0.039)	(0.039)
<b>2008 Year</b>				
March 31	224,669	(540,255)	(0.016)	(0.016)
June 30	1,249,434	(155,746)	(0.005)	(0.005)
September 30	2,514,185	420,784	0.013	0.013
December 31	1,304,959	(144,761)	(0.004)	(0.004)
Total for year	5,293,247	(419,978)	(0.012)	(0.012)

## H. Consolidated Balance Sheet

Total assets were \$2,626,197 at December 31, 2009 compared to \$3,885,576 at December 31, 2008. This decline of \$1,259,379 is due to the following:

- Cash was down \$371,492 (See the discussion in Section I - Consolidated Statement of Cash Flows);
- Accounts receivable were down by \$879,702 primarily as a result of the significant drop in fourth quarter sales as compared with the same period in 2008;
- Inventory was up \$161,396 - the purchase of foaming agent to replace defective material returned in early 2009 as offset by the use of materials in the Company's manufacturing process of cellular concrete;
- Prepaids and deposits were down \$168,805 primarily as a result of the application of a credit recorded at the end of 2008 for the return of defective foaming agent to purchases of replacement material in 2009;
- Property and equipment was up \$103,990. Additions to plant and equipment were \$255,912; of which \$10,800 was acquired by means of a finance capital lease and \$245,112 were acquired with cash generated from operations and a new loan from the AFSC to build a new piece of equipment. Depreciation expense for the year ending December 31, 2009 of \$151,922 reduced the net property and equipment amount; and
- Intangibles were reduced by \$104,766 which includes the amortization in the year ended December 31, 2009 of \$9,000 on patents, amortization of \$68,048 on product development costs and a \$27,718 write off of licenses in CEMATRIX (Calgary) Ltd. that no longer have value. No amortization is recorded on the remaining trademarks and technology as the Company views these as having an indefinite life (see Note 2 – Significant Accounting Policies to the Consolidated Financial Statements at December 31, 2009).

Total liabilities were \$557,238 at December 31, 2009 compared to \$538,973 at December 31, 2008. This increase of \$18,265 is due to the following:

- Trade and other payables were down \$26,351. Trade payables were up \$5,635 primarily due to timing of business activity, accruals were down \$17,175 and payroll remittance and goods and services tax are down \$14,811 primarily due to lower payroll remittance requirements due to the salary reductions put in place in 2009; and
- The AFSC Loans increased by \$101,032 which reflects the new loan of \$200,000 to finance the acquisition and construction of a new piece of equipment less repayments on the loans of \$98,968. The terms of the loans provide for payments to commence July 1 and run through to December 1 each year. (See Note 10 – Long term debt to the Consolidated Financial Statements at December 31, 2009); and
- Finance lease obligations are down \$56,416 compared to the level as at December 31, 2008. The Company added \$10,800 of new leased equipment in 2009 and this was offset by repayments of \$67,216.

Shareholders' Equity was \$2,068,959 at December 31, 2009 compared to \$3,346,603 at December 31, 2008. This decline of \$1,277,644 is due to the following:

- No new share capital was issued in 2009;
- Contributed surplus increase is due the stock based compensation charge of \$32,160; and
- The deficit increased by the loss in the year of \$1,309,804.

## I. Consolidated Statement of Cash Flows

The cash position of the Company at December 31, 2009 was \$110,310 compared to \$481,802 at December 31, 2008. The change of \$371,492 was due to the following:

Year ended December 31	2009	2008	Change
Cash provided by (used in) operating activities	\$ (160,196)	\$ 162,910	\$ (323,106)
Cash (used in) investing activities	(245,112)	(26,227)	(218,885)
Cash provided by (used in) financing activities	33,816	(177,736)	211,552
Decrease in cash	(371,492)	(41,053)	(330,439)
Cash, at beginning of year	481,802	522,855	(41,053)
Cash, at end of year	\$ 110,310	\$ 481,802	\$ (371,492)

- The Company used \$160,196 in cash from operating activities, after considering changes in non-cash working capital, in 2009 as compared to generating cash of \$162,910 in 2008, an increase in use of \$323,106. The negative cash flow, before non cash working capital adjustments, was higher by \$888,016 from 2008. This increase was primarily due to the increase in the reported loss of \$889,826 compared to 2008. This increase was partially offset by higher cash generation from the net change in non-cash working capital items of \$564,910 as compared to 2008, which was primarily due to the collection of trade receivables.

- Cash used in investing activities amounted to \$245,112 in 2009 for additions to property and equipment (including \$200,000 related to a new production unit). In 2008, additions to property and equipment were \$75,271 and this was partially offset by cash received on the sale of a piece of equipment of \$50,000.

- Cash provided from financing activities was \$33,816 in 2009 compared to a use of \$177,736 in 2008. In 2009, the Company borrowed \$200,000 from the AFSC to finance the new production unit that went into service in July. Repayments on the AFSC Loans were \$98,968 in 2009 compared to \$55,162 in 2008. This increase reflects the repayments on the new AFSC loan. Repayments of lease obligations were \$67,216 in 2009 as compared to \$122,574 in 2008.

## J. Liquidity and Capital Resources

At December 31, 2009, the Company had consolidated net working capital (current assets less trade and other payables) of \$558,653 compared to \$1,790,905 at December 31, 2008. The decline of \$1,232,252 is itemized in the following table:

At December 31	2009	2008	Change
<b>Current Assets</b>			
Cash	\$ 110,310	\$ 481,802	\$ (371,492)
Trade and other receivables	179,347	1,059,049	(879,702)
Inventory	440,719	279,323	161,396
Prepaid expenses and deposits	59,596	228,401	(168,805)
	789,972	2,048,575	(1,258,603)
Less: Trade and other payables	231,319	257,670	(26,351)
Total Net Consolidated Working Capital	\$ 558,653	\$ 1,790,905	\$ (1,232,252)

The decline in consolidated net working capital of \$1,232,252 is principally due to the use of cash in 2009 to fund the operating loss and additions to property and equipment and the drop in receivables which is due

to the decline in sales in 2009 as compared to 2008. For further analysis of the changes in consolidated working capital refer to Section H - Consolidated Balance Sheet herein.

As of December 31, 2009, the Company had cash of \$110,310 and other net working capital of \$448,343.

Subsequent to the end of the year, in January 2010, the company completed a private placement financing to raise \$500,000 from the issue of debentures and warrants. The proceeds from this financing are to be used to support the working capital position of the Company and for capital additions (see Note 28 (a) – Subsequent events to the Consolidated Financial Statements at December 31, 2009).

The Company has a demand operating facility with the Royal Bank of Canada of \$1,500,000. Under the facility, the bank will advance up to a maximum of 75% of total receivables less than ninety days outstanding at the end of each month, net of any priority claims plus 50% of inventories up to a maximum of \$250,000. Interest on the facility is at prime plus 2.25%. The security provided includes a General Security Agreement over all of the assets of the Company. Under the facility, the Company is required to maintain a debt to net tangible worth ratio of less than 1.75:1. At December 31, 2009 and December 31, 2008, the Company had utilized \$Nil of its \$1,500,000 operating line and was in full compliance with its debt covenants. The Company uses this facility to finance working capital requirements as required. The facility was used sparingly in 2009 due to the significant drop in sales and the resultant reduction in working capital that required financing. The Company was able to fund operations and capital through the use of cash as at the beginning of the year, the realization of receivables and long term debt financing. Based on the restrictions in the operating facility the actual operating line availability at December 31, 2009 was \$318,000.

The cash position and net working capital as at December 31, 2009 combined with the cash from the financing subsequent to the end of the year end, the availability of its operating line of credit and the sales contracts that are in place provide the necessary liquidity to carry the Company's operations through the first part of 2010. Ongoing liquidity after this point will be dependent on the Company achieving its sales forecast. See Section O – Outlook hereof for comments on the Company's outlook for 2010 and beyond.

The Company defines its capital as the AFSC Loans, the finance lease obligations and shareholders' equity. The current objective of the Company is to manage its capital through growth in earnings and to re-invest the earnings generated to facilitate the continued growth in the Company, in order to provide an appropriate rate of return to shareholders in relation to the risks underlying the Company's assets. The consolidated capital of the Company, as outlined in Note 25 - Capital management to the Consolidated Financial Statements as at December 31, 2009, was \$2,394,878 as compared to \$3,627,906 at December 31, 2008. The decrease of \$1,233,028 is the result of the loss in 2009 of \$1,309,804 partially offset by an increase in total debt of \$44,616 (the effect of \$200,000 in new long term debt with the AFSC to construct a production unit offset by long term debt repayments of \$98,968) and a reduction in finance lease obligations of \$56,416, and the stock based compensation charge of \$32,160.

In the second quarter of 2009, the Company completed a financing with the AFSC for \$200,000. This loan is for a term of 54 months, with interest at 5.82%. Payments of \$7,565 commence on July 1, 2009 and are seasonal payments on July 1 through to December 1, inclusive, in 2009 through 2013. The loan is secured by equipment and a General Security Agreement. The proceeds of this loan were used to build a new production unit which augments the Company's existing fleet of equipment and went into service in July.

It is the Company's current practice to finance qualifying capital acquisitions through finance leases and to pursue long term financing only for larger acquisitions. The Company added \$10,800 in new finance lease obligations in 2009 to expand its productive capability as compared to \$222,088 in 2008.

The following is a summary of the Company's lease and debt obligations and commitments for the next five years from December 31, 2009.

Debt Category	2010	2011	2012	2013	2014 and Beyond
	\$	\$	\$	\$	\$
Capital leases*	47,623	32,766	31,833	4,600	-
AFSC loans*	111,234	45,390	45,390	45,390	-
Operating leases	196,689	186,747	179,750	179,750	179,750

\*Includes principal and interest

#### K. Transactions with Related Parties

In 2008 the Company incurred legal fees from a firm which employs two of the former directors of the Company. The amount incurred in 2008, while these individuals were directors of the Company, was \$20,527. The amounts were in the normal course of operations and are recorded at their exchange amount, which is the amount of consideration established and agreed to by the related parties. The two directors resigned on June 17, 2008 and transactions with this firm subsequent to that date have been at arm's length.

#### L. Disclosure of Outstanding Share Data

As at December 31, 2009 and March 16, 2010, the following is a description of the outstanding equity securities and convertible securities previously issued by the Company

	<u>Authorized</u>	<u>Outstanding as at December 31, 2009</u>	<u>Outstanding as at March 16, 2010</u>
Voting or equity securities issued and outstanding	Unlimited Common Shares	33,465,994 Common Shares	33,465,994 Common Shares
Securities convertible or exercisable into voting or equity securities - stock options	Stock options to acquire up to 10% of outstanding Common Shares	Stock options to acquire 2,370,825 Common Shares at an exercise price at between \$0.10-\$0.35	Stock options to acquire 2,820,825 Common Shares at an exercise price at between \$0.10-\$0.35

Options to purchase 200,000 common shares of the Company, which were held by a former director of the Company, expired in September 2009. There were no options granted or forfeited in the year ending December 31, 2009.

During the year ended December 31, 2008, the Company granted 900,000 options to directors and management at prices between \$0.30 and \$0.10. In addition, 200,000 of vested options were forfeited and 946,187 options expired.

Subsequent to December 31, 2009, the Company granted options to acquire shares of the Company: on February 5, 2010, 300,000 options at a price of \$0.12 were granted to The Howard Group pursuant to an Investor Relations Agreement (see Note 28 (b) - Subsequent events to the Consolidated Financial Statements at December 31, 2009) and on March 16, 2010, 150,000 options at a price of \$0.30 to a new director of the Company.

Subsequent to December 31, 2009, the Company completed a private placement debenture and warrant issue of 100 units to certain subscribers at a subscription price of \$5,000 per unit, for aggregate gross proceeds of \$500,000. Each unit also had attached 10,000 warrants that are exercisable for a term of three years at an exercise price of \$0.15 (see Note 28 (a) - Subsequent events to the Consolidated Financial Statements at December 31, 2009).

## **M. Changes in Accounting Policies including Initial Adoption**

There have been no changes to the Company's accounting policies since December 31, 2008 other than as noted below (refer also to Note 2 - Significant Accounting Policies to the Consolidated Financial Statements at December 31, 2009).

The Canadian Institute of Chartered Accountants ("CICA") issued handbook section 3064, "Goodwill and Intangible Assets", which was adopted by the Company, effective January 1, 2009. The new section replaces section 3062 "Goodwill and Other Intangible Assets" and section 3450, "Research and Development Costs". Section 1000, Financial Statement Concepts" was also amended according to section 3064. This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented companies. The adoption has had no effect on the Company's current or prior years' consolidated financial statements.

In January 2009, the Emerging Issues Committee ("EIC") of the CICA issued EIC-173 "Credit Risk and the fair value of Financial Assets and Liabilities". It concluded that an entity's own credit risk and the credit risk of any counterparty should be taken into account in determining the fair value of financial instruments, including derivative instruments. The Company adopted this EIC but it had no effect on the Company's current or prior years' financial statements.

### ***Future Accounting Policies***

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

In January 2006, the CICA adopted a strategic plan for the direction of accounting standards in Canada. Accounting standards for public companies in Canada are to converge with International Financial Reporting Standards ("IFRS") by 2011. On April 7, 2008, the Accounting Standards Board issued its exposure draft proposing to incorporate IFRS for interim and annual financial statements for fiscal years beginning on or after January 1, 2011 with earlier adoption permitted. The Company has introduced the "Consolidated Statements of Changes in Equity" and expanded its note disclosure in its consolidated financial statements for the year ended December 31, 2009 to align more closely with the requirements of IFRS.

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

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

Phase One: Scoping and Diagnostics involves project planning and staffing and the identification of differences between current GAAP and IFRS. This was completed in the second quarter of 2009. The Company has identified a number of differences between current GAAP and IFRS. The most significant differences are the requirement under IFRS to separate property, plant and equipment into their unique component parts for purposes of assigning depreciation rates and the requirement for broader disclosure and formatting changes within the financial statements prepared under IFRS. This phase was completed in the first quarter of 2009.

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

Phase Three: Implementation and Review involves the execution of any required changes to the information systems and business processes and the collection of the information to compile the IFRS compliant financial statements. This Phase was completed in the fourth quarter of 2009.

The Company has identified the following major differences between current accounting policies and those required or expected to be required in preparing IFRS financial statements.

#### *Property and equipment*

International accounting standard (“IAS”) 16 - Property, plant and equipment, reinforces the requirement under Canadian GAAP that requires that each part of property, plant and equipment that has a cost that is significant in relation to the overall cost of the item should be depreciated separately. This could result in an increase or decrease in the Company’s current depreciation rates.

#### *Income taxes*

Under IAS 12 – Income taxes, a deferred tax asset is recognized for the carry forward of unused tax losses to the extent that it is “probable” that future taxable profit will be available against which the unused tax losses can be utilized and refers to “convincing evidence” of such. Under Canadian GAAP unused tax losses are recognized when it is “more likely than not” that the amount will be realized, where “more likely than not” is defined as when the probability of occurrence is greater than 50 percent. These wording differences may make it more difficult to recognize the Company’s unused income tax losses which were over \$5 million at December 31, 2009.

#### *Impairment of Long-lived assets*

IAS 36 – Impairment of assets, uses a one step approach for testing for and measurement of impairment of long-lived assets. The asset carrying value is compared directly with the higher of fair value less costs to sell and the value in use (which uses discounted future cash flows). A two step approach is generally used under Canadian GAAP whereby first the asset carrying value is compared with undiscounted cash flows to determine if impairment exists and then measuring any impairment by comparing the asset carrying value with fair value. This difference may potentially result in a write-down where the carrying value of an asset would be supported under Canadian GAAP on an undiscounted cash flow basis. In addition, under IFRS impairment losses are reversed where circumstances have changed such that the impairment has been reduced. Canadian GAAP prohibits reversal of impairment losses.

The Company plans to continue to monitoring IFRS developments and all changes to pronouncements prior to January 1, 2011 will be incorporated as required. As well the company will be gathering the comparative IFRS information each quarter through 2010 so that this information will be available for quarterly reporting under IFRS beginning in 2011.

In January 2009, the CICA approved three new accounting standards for the CICA Handbook, including Section 1582, “Business Combinations”, Section 1601, “Consolidated Financial Statements”, and Section 1602, “Non-Controlling Interests”. All three standards are effective for fiscal years beginning on or after January 1, 2011. The Company does not expect any material impact from the adoption of these standards.

Section 1582 “Business Combinations” was updated and is effective for a business combination for which the acquisition date is on or after January 1, 2011.

Section 1601, together with Section 1602 “Non-controlling Interests”, replaces former Section 1600 “Consolidated Financial Statements”. Section 1601 carries forward the requirements of Section 1600 for preparing consolidated financial statements after acquisition and some aspects of consolidation at the date of a business combination. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary subsequent to a business combination. Sections 1601 and 1602 apply retrospectively, with some exceptions, to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

In 2009 the CICA also issued exposure drafts (“ED’s”) to incorporate proposed changes to the existing International Accounting Standards (“IAS”) or to conform existing CICA Handbook sections to IAS. These include ED’s on Section 1000 “Financial Statements Concepts” and Section 3500 “Earnings per Share” as well as an ED to adopt the new consolidation standard, the final IAS standard on the derecognition of financial assets and financial liabilities and a new standard on fair value measurement proposed by the IASB.

## **N. Financial Instruments**

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

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

The Company has no derivatives or embedded derivatives in other financial instruments as of December 31, 2009 or December 31, 2008.

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

- Cash is classified as financial assets held for trading;
- Trade and other receivables are classified as loans and receivables; and
- Trade and other payables and long term debt are classified as other financial liabilities.

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

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

### *Interest Rate Risk*

The Company has a credit facility with a Canadian chartered bank which, when utilized by the Company, provides loans that are subject to interest rate fluctuation. The Company did not have balances outstanding for this credit facility at December 31, 2009 and December 31, 2008 and is not significantly exposed to interest rate risk at this time.

### *Credit Risk*

Financial instruments that subject the company to credit risk consist primarily of trade accounts receivable. The Company manages credit risk using credit approval and monitoring practices. At December 31, 2009, 3 customers and at December 31, 2008 5 customers accounted for approximately 95% and 90% respectively of accounts receivable.

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

The aging of the trade receivables that were past due but not impaired was as follows as of December 31, 2009 and December 31, 2008:

	<u>Trade Receivables Aging</u>		<u>Holdback Amounts Included</u>	
	2009	2008	2009	2008
1-30 days	\$ 91,815	\$ 90,833	\$ -	\$ 9,083
30-60 days	79,452	201,854	76,709	54,641
61-90 days	5,677	472,604	5,677	91,201
Greater than 90 days	91	277,721	91	272,573
	<u>\$ 177,035</u>	<u>\$ 1,043,012</u>	<u>\$ 82,477</u>	<u>\$ 427,498</u>

The Company had no impaired trade receivables at December 31, 2009 and 2008.

#### *Liquidity Risk*

Liquidity risk management involves maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit lines. Due to the nature of the business, the Company aims to maintain flexibility in funding by keeping committed credit lines available and limiting the investment of available cash to short term risk free interest bearing deposits. At December 31, 2009 and December 31, 2008 the Company had access to \$1,500,000 in bank operating line financing subject to advance restrictions on the level of receivables and inventories, of which \$Nil has been drawn on these dates. Based on those restrictions the actual operating line availability at December 31, 2009 was \$318,000 (December 31, 2008 \$662,000).

#### **O. Outlook**

The current focus remains to conserve cash and manage the Company through until the normal construction cycle begins in mid 2010 and projects are awarded. In order to accomplish this, management has and continues to implement a number of cost reduction initiatives which have been outlined in Section F. Operations and Overall Performance. In addition, it completed a private placement financing in January 2010, to raise \$500,000 for working capital support (see Note 28(a) – Subsequent events to the Consolidated Financial Statements at December 31, 2009). This funding will supplement cash generated from landed projects completed or to be completed through the first six off season months of 2010.

The Company is optimistic about the balance of 2010 as it is in the design stage of, or in ongoing discussions with engineering firms and general contractors for projects in Canada and the United States, which are scheduled to commence in 2010 that have the potential for use of over 400 hundred thousand cubic metres of cellular concrete. Over 90% of these projects are infrastructure type projects, many of which are in Western Canada. In addition the Alberta oil sands sector has announced the re-start of a number of projects on which the Company's product has been specified and used in the past. However, the Company is not currently working on the design of any specific oil and gas projects related to these recent announcements.

Whether the Company lands or completes any of the infrastructure or oil and gas related projects is dependent on a number of factors including the final timing for completion of the particular project, the specifications of cellular concrete for the project versus other products and whether the Company is successful in winning the bids over competitive bids, should there be competitors in any of the projects that have specified the use cellular concrete.

Future growth in the use of CEMATRIX's cellular concrete in infrastructure will depend on the Company getting product acceptance and the speed at which announced infrastructure spending, that could involve the use of its product, is made.

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**Form 51-102F1 - Management's Discussion & Analysis  
For the Nine Months and Quarter Ended December 31, 2009**

**Appendix A – Forward Looking Statements**

The forward-looking statements in the MD&A for the year ending December 31, 2009 are outlined below:

Page 5 – 2009 annual review and highlights

**The Company has contracts in place for work in the Alberta oil sands and it has positioned itself for infrastructure work in Alberta, Ontario, British Columbia and the Northwest Territories by working towards or obtaining product approvals by regulating bodies of the various levels of government for the use of its cellular concrete product in these markets. Management expects that the effect of this focus on infrastructure projects will begin to be realized in 2010 and beyond and believes that its infrastructure sales will become the most significant portion of its annual sales base.**

*The foregoing paragraph contain forward- looking statements and are based on sales forecasts prepared for 2010 on work which is under contract, as well as probability adjusted forecasts for projects on which the Company has placed or will place bids in the coming years, where the probabilities applied to the sales forecast are based on management's assessment of the particular project based on historical experience and the stage the project is in the sales cycle; the significant number of infrastructure projects, relative to preceding years, on which the Company has or will be placing bids on; and the progress that the Company has made in getting product approval for the use of its product on infrastructure work in its various markets. There are a number of risks that could affect those assumptions which include: contracted work is delayed; the failure of 2010 and beyond sales to materialize, because of project delays or cancelations or because CEMATRIX's cellular concrete is not specified into projects, management's assumptions in applying probabilities to the various projects in the sales forecast are incorrect; and a delay in getting product acceptance in new markets such that the timeline for geographical diversification and an increase in infrastructure sales is longer than anticipated resulting in reduced sales.*

Page 7 – Product Acceptance

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

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

Page 8 – Product Acceptance

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

*The foregoing statement is forward-looking and is based on Company information that projects in British Columbia have been awarded and completed by CEMATRIX, projects in Ontario have been awarded and completed or scheduled, after only a year of marketing in Ontario and that there are a number of other projects in both of these market places that the Company has placed bids on or is in the process of placing*

*bids on. In the Company's view the reception from various engineering firms and municipalities in British Columbia, Ontario and the Northwest Territories that have been visited has been much more encouraging, in terms of the absolute number and senior level of people in attendance at the Company's presentations and the comments received about potential projects, than previously experienced in Alberta. The principal risks that could affect these assumptions are the failure of the engineering firms to specify CEMATRIX's cellular concrete in their project design and the cancellation of projects.*

Page 18 - Outlook

**The Company is optimistic about the balance of 2010.**

*The foregoing statements contain forward-looking statements and are based on sales and cash flow forecasts prepared for 2010; sales forecasts include work which is under contract for 2010, as well as probability adjusted forecasts for projects on which the Company has placed or will place bids in the coming year, where the probabilities applied to the sales forecast are based on management's assessment of the particular project based on historical experience and the stage the project is in the sales cycle ; cash flow forecasts for 2010 based on the above sales forecast and the forecast of the Company's cost structure;. There are a number of risks that could affect those assumptions which include: contracted work is delayed; the failure of 2010 sales to materialize, because of project delays or cancelations or because CEMATRIX's cellular concrete is not specified into projects, management's assumptions in applying probabilities to the various projects in the sales forecast are incorrect, the Company's cost structure is significantly different than forecast; a delay in getting product acceptance in new markets such that the timeline for geographical diversification and an increase in infrastructure sales is longer than anticipated resulting in reduced sales; and the recovery in the economy is delayed.*

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

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