CEMATRIX CORPORATION

Management's Discussion and Analysis

For Six Months and Quarter Ended June 30, 2010

Date Completed: August 12, 2010

CEMATRIX CORPORATION
www.cematrix.com

Form 51-102F1 - Management's Discussion & Analysis
For the Six Months and Quarter Ended June 30, 2010

The following is the management's discussion and analysis ("MD&A") of CEMATRIX Corporation ("CEMATRIX" or the "Company") for the six months and quarter ended June 30, 2010. This MD&A should be read in conjunction with the unaudited consolidated financial statements of the Company for the six months and quarter ended June 30, 2010 and the related notes thereto and the audited consolidated financial statements and MD&A of the Company for the year ended December 31, 2009 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. 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 unaudited consolidated financial statements and MD&A for the quarter ended June 30, 2010 and the Board of Directors of the Company has reviewed and approved them on August 12, 2010.

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Forward Looking Statements

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

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 for the year ended December 31, 2009, 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. These factors remain substantially unchanged as of the date hereof. 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 six months and quarter ended June 30, 2010, the Company's financial condition as at June 30, 2010 and its future prospects.

B. Overall Performance and Highlights of the Second Quarter

- The sales in the second quarter were significantly below those reported in the first quarter as the result of a number of projects being rescheduled to the third quarter and slower than expected sales. This was in line with what was reported in the outlook in the first quarter of 2010 MD&A.

- The infrastructure market for the Company's products, although growing, is not growing as fast as the Company had initially expected. Product acceptance continues to be a challenge. The Company`s product has been accepted in British Columbia, as an approved light weight material, and as a trial product in Alberta, for various lightweight infrastructure applications, by the particular government ministries. The application with 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 was reviewed and the product was conditionally approved in late March, subject to an engineering review of product applications, which was filed in mid July, and the review of the results of projects completed and to be completed. The engineering report was completed by an independent engineering firm and has been filed with the MTO. The engineering report recommends that CEMATRIX's cellular concrete be accepted as a light weight fill material and be included in the MTO's designated sources for material database. The recommendation is subject to the review of test data for a particular property that was tested by another engineering firm in 2002. It now appears that formal approval will not be received until the fall of 2010, at the earliest, which means that any significant amount of infrastructure work in Ontario is delayed until 2011 or beyond.

- The work in the oil and gas sector, and in particular on oil sands and refinery projects, has not recovered to the levels experienced in 2007 and 2008. A number of projects have been re-started and new projects have been announced by companies in this sector, but most of these projects are still in the engineering stage.

- As of the date of this MD&A the Company has completed or contracted projects with sales of approximately $1.3 million and has verbal confirmation of another $2.9 million, some of which are scheduled for August and September, for a total of $4.2 million. Unfortunately, because purchase orders are not received until shortly before projects are scheduled to begin there is no guarantee that any or all of these verbally approved projects will proceed. The Company continues to pursue other projects but whether this results in work for the Company is dependent on a number of factors, most of which are beyond the control of management.

- The Company continues to focus on managing its costs and cash flow. The Company's staff remains on reduced work hours and all discretionary spending continues to be curtailed.

C. Results of Operations

Comparison of the Quarter Ending June 30, 2010 and June 30, 2009

	Three Months Ended June 30		
	2010	2009	Change
Revenue	$ **144,752**	$ 1,183,667	$ (1,038,915)
Gross margin	$ **(85,193)**	$ 424,967	$ (510,160)
Operating expenses	**(399,308)**	(452,004)	52,696
Operating loss	**(484,501)**	(27,037)	(457,464)
Finance costs	**(42,307)**	(7,288)	(35,019)
Non-operating income (expense)	**82**	(7,773)	7,855
Net loss	$ **(526,726)**	$ (42,098)	**$** (484,628)
Fully diluted earnings per common share	$ **(0.016)**	$ (0.001)	$ (0.015)

Total revenue for the quarter ended June 30, 2010 was $144,752 as compared to $1,183,667 for the same quarter in 2009, a decrease of $1,038,915 or 88%. Sales volumes were down by 90%.

As reported in the outlook section of the first quarter MD&A, management provided guidance that the second quarter sales would be down from the strong sales reported for the first quarter of 2010 as a result of the start date for a number of projects having been moved to the July to October time frame.

In the second quarter of 2009 the Company was still benefitting from project work in the Alberta oil sands/refinery sector with this sector accounting for over 88% of the quarterly sales of cellular concrete. This market, which fell off in 2009 with the cancellation or deferral of many oil sand/refinery sector projects being announced due to the world economic collapse of late 2008 and 2009, has not returned. Even though many of these projects have been restarted the work is still in the engineering stage and not at the stage where the Company's products can be used. The second quarter of 2009 also included revenues of $55,716 related to a project in Adak, Alaska involving the rental of one of the Company's pieces of equipment and the sales of cement and foaming agent. There have been no comparable sales in 2010 to date.

The gross margin on sales was a negative $85,193 in the second quarter of 2010 as compared to a positive margin of $424,967 in the same period of 2009. This decrease is the result of reduced sales of cellular concrete and the margin on equipment rental. The Company was able to partially offset the lower margin from sales by working diligently to reduce direct labour, variable and fixed costs.

Total operating expenses for the quarter ended June 30, 2010 were $399,308 as compared to $452,004 in the same quarter of 2009. This $52,696 or 12 % decrease is due to the aggregate effect of the following:

- General and administrative costs were down by $6,697 – cost reduction efforts and constraints put in place by the Company continue and include continued reduced management and staff wages levels;

- Sales, marketing and engineering costs decreased by $37,423 – lower commissions of $9,090 due to the reduced sales level; marketing program costs were down $5,844 due to cost constraints; and other costs were down $22,489 due to cost reduction efforts and constraints put in place by the Company;

- Stock based compensation was higher by $9,606 as a result of stock options granted in the first quarter of 2010 to a new director and to the Howard Group, a company hired to provide investor and financial relation services; and

- Depreciation and amortization decreased by $18,182 – the amortization of intangibles decreased by $19,260; patents and product development costs were fully amortized in 2009; property and equipment depreciation increased by $1,078 due to the higher asset base in 2010 compared to the same period in 2009 as offset by lower depreciation recorded on the dry mix equipment, which are depreciated using a unit of production method, due to a decrease in dry mix sales volumes compared to the same period in 2009.

Finance costs increased by $35,019 – this is principally due to higher finance costs related to the subordinated secured debentures that were issued as part of the private placement completed in January of 2010, including interest expense of $15,000 and a non cash accretion expense of $22,010 recorded relative to the subordinated secured debentures, lower interest of $1,189 on capital leases due to lower capital lease obligations as a result of obligation payments and the buyout of leases; and lower interest on the Alberta Financial Services Corporation (“AFSC”) loans and other interest payable amounted to $802 in the second quarter of 2010.

Non-operating income and expenses in the second quarter of 2010 of $82 represents foreign exchange income. The comparable amount in the same period of 2009 was $1,655 of foreign exchange expense. Also in the comparable period of 2009 the Company recorded a write off of licenses that no longer had value of $27,718 as partially offset by the reversal of $21,600 of accrued expenses no longer required.

A net loss for the quarter ended June 30, 2010 was $526,726 compared with a net loss of $42,098 for the same period in 2009. The increase in the loss is due to lower sales, resulting from the decline in sales volume in the oil sands/refinery sector, and higher finance costs, related to the subordinated secured debentures that were issued as part of the private placement completed in January of 2010. The loss has been partially reduced by cost reduction and cost constraint efforts.

Comparison of the six months ending June 30, 2010 and June 30, 2009

	Six Months Ended June 30		
	2010	2009	Change
Revenue	$ **960,897**	$ 1,529,629	$ (568,732)
Gross margin	$ **132,589**	$ 354,442	$ (221,853)
Operating expenses	**(797,524)**	(989,805)	192,281
Operating loss	**(664,935)**	(635,363)	(29,572)
Finance costs	**(75,654)**	(12,687)	(62,967)
Non-operating income (expense)	**(61)**	(9,442)	9,381
Net loss	$ **(740,650)**	$ (657,492)	**$** (83,158)
Fully diluted earnings per common share	$ **(0.022)**	$ (0.020)	$ (0.002)

Total revenue for the six months ended June 30, 2010 was $960,897 as compared to $1,529,629 for the same period in 2009, a decrease of $568,732 or 37%. Sales volumes were down by 21%.

In the six months ended June 30, 2009 the Company was still benefitting from project work in the Alberta oil sands/refinery sector with this sector accounting for $1.268 million or over 86% of the sales of cellular concrete. This market, which fell off in 2009 with the cancellation or deferral of many oil sand and refinery sector projects being announced due to the world economic collapse of late 2008 and 2009, has not returned. Even though many of these projects have been restarted the work is still in the engineering stage and not at the stage where the Company’s products can be used. The comparable sales from this market for the same period in 2010 were only $282 thousand or 29% of sales.

This decline in sales in the oil sands/refinery sector has been partially offset by an increase in infrastructure sales of $471 thousand over the comparable period in 2009. This increase was primarily due to a tunnel project completed in Ontario in the first quarter of 2010. Infrastructure sales in the second quarter of 2010 were affected by the delay of projects to the third and fourth quarter. The Company began to diversify into the infrastructure market (road work, bridge abutment, tunnel grouting etc.) in early 2009 but this market has taken longer to develop than had originally been expected. Aside from the tunnel project completed in the first quarter, growth in sales in this market has not occurred.

The six months ended June 30, 2009 also included revenues of $55,716 related to a project in Adak, Alaska involving the rental of one of the Company’s pieces of equipment and the sales of cement and foaming agent. There were no comparable sales in 2010 to date.

The gross margin on sales was $132,589 or 13.8 % in 2010 as compared to $354,442 or 23.2% in 2009. This decrease is due to the reduction in sales of cellular concrete and the margin on equipment rental. The Company was able to partially offset the lower margin from sales by working diligently to reduce direct labour, variable and fixed costs.

Total operating expenses for the six months ended June 30, 2010 were $797,524 as compared to $989,805 in the same quarter of 2009. This $192,281 or 19 % decrease is due to the aggregate effect of the following:

- General and administrative costs were down by $43,763 – salaries and associated benefits were down $11,546 due to the effect of a reduction of salaries and work hours that was put in place after March 1, 2009; consulting costs of $19,000 were incurred in 2009 in regard to labour relations in Ontario and other costs were down by $13,217 due to cost reduction efforts and constraints put in place by the Company;

- Sales, marketing and engineering costs decreased by $143,156 – salaries and associated benefits decreased by $85,974 – this was due to a reduction in staff and the effect of a reduction of salaries and work hours that was put in place after March 1, 2009; marketing program costs were down $35,445 due to cost constraints and the fact that in early 2009 the Company undertook a major marketing effort in developing the Ontario infrastructure market; commission costs were down by $4,270 due to lower sales and other costs were down $17,467 due to cost reduction efforts and constraints put in place by the Company;

- Stock based compensation was higher by $20,466 as a result of stock options granted in the first quarter of 2010 to a new director and to the Howard Group, a company hired to provide investor and financial relation services; and; and

- Depreciation and amortization decreased by $25,828 – the amortization of intangibles decreased by $38,520; patents and product development costs were fully amortized in 2009; property and equipment depreciation increased by $12,692 due principally to the higher asset base in 2010 compared to the same period in 2009.

Finance costs increased by $62,967 – this is principally due to higher finance costs related to the subordinated secured debentures that were issued as part of the private placement completed in January of

2010, including interest expense of $26,500 and non cash accretion expense of $37,978 recorded relative to the subordinated secured debentures, lower interest of $2,331 on capital leases due to lower capital lease obligations as a result of obligation payments and the buyout of leases; and interest on the AFSC loans and other interest payable increased by $820 in the first half of 2010.

Non-operating income and expenses in the six months ending June 30, 2010 of $61 represents foreign exchange expense. The comparable amount in the same period of 2009 was $3,324 of foreign exchange expense. Also in the comparable period of 2009 the Company recorded a write off of licenses that no longer had value of $27,718 as partially offset by the reversal of $21,600 of accrued expenses no longer required.

A net loss for the six months ended June 30, 2010 was $740,650 compared with a net loss of $657,492 for the same period in 2009. The increase in the loss is due to the lower sales, resulting from the decline in sales volume in the oil sands/refinery sector, and higher finance costs, related to the subordinated secured debentures that were issued as part of the private placement completed in January of 2010. The loss has been partially reduced by cost reduction and cost constraint efforts.

D. Selected Quarterly Financial Information

Due to the seasonal nature of the Company's business, which historically follows the construction season in Canada, a significant portion of the Company's annual sales occur between the latter part of the second quarter and the first part of the fourth quarter. 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:

			Net Income (Loss)	
Quarters Ended	**Total Revenues**	**Net Income (Loss)**	**Per Share Basic**	**Per Share Diluted**
	$	$	$	$
2010 Year				
March 31	**816,145**	**(213,924)**	**(0.006)**	**(0.006)**
June 30	**144,752**	**(526,726)**	**(0.016)**	**(0.016)**
Total for period	**960,897**	**(740,650)**	**(0.022)**	**(0.022)**
2009 Year				
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)
2008 Year				
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)

E. Consolidated Balance Sheet

	June 30 2010	December 31 2009	Change
Total current assets	$ **591,824**	$ 789,972	$ (198,148)
Total non current assets	**1,781,746**	1,836,225	(54,479)
Total Assets	$ **2,373,570**	$ 2,626,197	$ (252,627)
Current liabilities	$ **498,585**	$ 370,430	$ 128,155
Non current liabilities	**421,253**	186,808	234,445
Total liabilities	$ **919,838**	$ 557,238	$ 362,600
Shareholders' equity	$ **1,453,732**	$ 2,068,959	$ (615,227)

Total current assets were $591,824 at June 30, 2010 compared to $789,972 at December 31, 2009. This decrease of $198,148 was due to aggregate effect of the following:

- Cash was down $96,500 (see the discussion in Section G - Consolidated Statement of Cash Flows);

- Restricted cash of $19,327 was reported as at June 30, 2010 – this is new in 2010 and relates to the requirement to use 3% of cash revenues collected each quarter, as determined from the date of issue, to repay the subordinated secured debentures issued in January 2010;

- Trade and other receivables were down by $113,091 primarily as a result of the lower sales in the second quarter of 2010 as compared with the fourth quarter of 2009 and the timing of collections of receivables relative to the sales in the two quarters;

- Inventory was down $27,540 due to its consumption in the production process; and

- Prepaid expenses and deposits were up $19,656 due to the normal cycle of prepayments relative to insurance and other items in the first half of the year.

Total non current assets were $1,781,746 at June 30, 2010 compared to $1,836,225 at December 31, 2009. This decrease of $54,479 was due to the following:

- Property and equipment was down $54,479 - additions to plant and equipment were $19,911 and depreciation expense for the six months ending June 30, 2010 was $74,390.

- Intangibles remained at the same amount as patents and product development costs were fully amortized at December 31, 2009 and no amortization is recorded on the remaining trademarks and technology as the Company views these as having an indefinite life.

Total current liabilities were $498,585 at June 30, 2010 compared to $370,430 at December 31, 2009. This increase of $128,155 was due to the aggregate of the following:

- The bank operating loan was $15,000 at June 30, 2010 as the Company was required to utilize its line of credit to finance working capital. There was no usage of the line of credit in the comparable period of 2009;

- Trade and other payables were down $20,225 principally due to the decrease in trade payables due to reduced business activity in the second quarter of 2010 compared to the last quarter of 2009;

- Current portion of long term debt was up $137,000 and this represents the Company's estimate of the portion of the subordinated secured debentures, issued as part of the private placement in January 2010, that will be repaid over the next 12 months from 3% of the cash revenues collected over this period (see note 8 to the Consolidated Financial Statements at June 30, 2010). In the second quarter of 2010 the Company reduced its estimate for cash revenue collections over the next twelve months. The terms of the AFSC loans provide for payments to commence July 1 and run though to December 1 each year; and

- Current portion of capital lease obligations were down $3,620 compared to the level as at December 31, 2009 due to a scheduled repayments and the buyout of leases in 2010.

Total non current liabilities were $421,253 at June 30, 2010 compared to $186,808 at December 31, 2009. This increase of $234,445 was due to the aggregate of the following:

- Long term debt was up $251,079 due to the issue of the subordinated secured debentures issued as part of the private placement in January 2010 (see note 8 to the Consolidated Financial Statements at June 30, 2010). The fair value recorded for the subordinated secured debentures, after the allocation of transaction costs, was $355,507. For accounting purposes, an accounting entry is recorded each period to accrete the recorded amount to the full value of the repayment obligation of $500,000 over its expected life. This is reflected in finance costs as an "accretion expense on subordinated secured debentures" and amounted to $37,978 in the six months ended June 30, 2010. This expense has no current period impact on the Company's cash position. The current portion of this obligation is recorded in current liabilities (see above); repayments of the subordinated secured debentures in 2010 amounted to $5,406; and

- Capital lease obligations were down $16,634 compared to the level as at December 31, 2009 due to repayments in 2010 of $20,254 and the decrease in the current portion as discussed above.

Shareholders' Equity was $1,453,732 at June 30, 2010 compared to $2,068,959 at December 31, 2009. This decline of $615,227 is due to the following:

- No new share capital was issued in 2010;

- The Company issued share purchase warrants as part of the private placement in January 2010, the fair value attributable to the share purchase warrants, after the allocation of issue costs, was $88,877 (see note 8 and 9 to the Consolidated Financial Statements at June 30, 2010);

- Contributed surplus increase is due the stock based compensation charge of $36,546; and

- The deficit increased by the loss in the period of $740,650.

See the Consolidated Statements of Shareholders' Equity included in the Consolidated Financial Statements at June 30, 2010.

F. Consolidated Statement of Cash Flows

Comparison of the Quarter ending June 30, 2010 and June 30, 2009

The cash position of the Company at June 30, 2010 was a negative $1,190 (consisting of cash of $13,810 net of the bank operating line amount of $15,000) compared to cash of $52,547 at March 31, 2010, $192,437 at June 30, 2009 and $496,719 at March 31, 2009. The change in cash in the second quarter of 2010 was a decrease of $53,737 as compared to a decrease of $304,282 in the same period of 2009. This change is outlined on the following page:

	Three Months Ended June 30		
	2010	2009	Change
Cash provided by (used in) operating activities	$ (3,079)	$ (277,218)	$ 274,139
Cash used in investing activities	(16,011)	(190,143)	174,132
Cash provided by (used in) financing activities	(34,647)	163,079	(197,726)
Increase (decrease) in cash	(53,737)	(304,282)	250,545
Cash, at beginning of period	52,547	496,719	(444,172)
Cash, at end of period	$ (1,190)	$ 192,437	$ (193,627)
Cash			
Cash in bank	$ 13,810	$ 192,437	$ (178,627)
Bank operating line	(15,000)	-	(15,000)
	$ (1,190)	$ 192,437	$ (193,627)

- The Company used $3,079 in cash from operating activities, after considering changes in non-cash working capital, in the second quarter of 2010 as compared to use of cash of $277,218 in the same period in 2009, a decrease in use of $274,139. The negative cash flow, before non cash working capital adjustments, was higher by $498,912 compared with 2009. This increase was primarily due to the increase in the reported loss of $484,628 compared to 2009. This reduction was offset by higher cash generation from the net change in non-cash working capital items of $773,051 as compared to 2009. This is primarily due to level of trade receivables coming into the second quarter and the timing of collection of trade receivables – at March 31, 2010 trade receivables were $767,015 as compared to $449,690 at March 31, 2009. In addition, the lower sales, and the timing of these sales, in the second quarter of 2010 compared to the same period in 2009 resulted in a lower amount of sales being uncollected at the quarter end – at June 30, 2010 trade receivables were $58,718 compared to $994,792 at June 30, 2009.

- Cash used in investing activities relates to additions to property and equipment which amounted to $16,011 in the second quarter of 2010 and $190,143 in the same quarter of 2009. In the second quarter of 2009 the Company was constructing a new piece of production equipment and had spent $150,630 as of June 30, 2009.

- Cash used for financing activities was $34,647 in the second quarter of 2010 compared to $163,079 cash from financing activities in the same period in 2009. In 2009, the Company received a loan of $200,000 from the AFSC to build a new piece of production equipment. In 2010, repayments on the subordinated secured debentures which were issued in January 2010 were $5,406. There were no repayments on the AFSC loans as the terms of these loan agreements provide for repayments only in the period July to December of each year. Cash flow in the second quarter of 2010 was adjusted for restricted cash of $19,096. This is new in 2010 and relates to the requirement to use 3% of cash revenues collected each quarter, as determined from the date of issue, to repay the subordinated secured debentures issued in January 2010. In 2010, repayments on capital lease obligations were $10,145 as compared with $36,921 in the same period of 2009. In 2009, the amount included a lease buyout of $26,580 for a piece of equipment required for a project in Adak, Alaska.

Comparison of the Six Months Ending June 30, 2010 and June 30, 2009

The cash position of the Company at June 30, 2010 was a negative $1,190 (consisting of cash in the bank of $13,810 net of a bank operating line amount of $15,000) compared to cash in the bank of $110,310 at December 31, 2009, $192,437 at June 30, 2009 and $481,802 at December 31, 2008. The change in cash in the six months ended June 30, 2010 was a decrease of $111,500 as compared to a decrease of $289,365 in the same period of 2009. This change is outlined on the following page:

	Six Months Ended June 30 2010	2009	Change
Cash provided by (used in) operating activities	$ (490,986)	$ (246,682)	$ (244,304)
Cash used in investing activities	(19,911)	(195,054)	175,143
Cash provided by (used in) financing activities	399,397	152,371	247,026
Increase (decrease) in cash	(111,500)	(289,365)	177,865
Cash, at beginning of period	110,310	481,802	(371,492)
Cash, at end of period	$ (1,190)	$ 192,437	$ (193,627)
Cash			
Cash in bank	$ 13,810	$ 192,437	$ (178,627)
Bank operating line	(15,000)	-	(15,000)
	$ (1,190)	$ 192,437	$ (193,627)

- The Company used $490,986 in cash from operating activities, after considering changes in non-cash working capital, in the first half of 2010 as compared to use of cash of $246,682 in the same period in 2009, an increase in use of $244,304. The negative cash flow, before non cash working capital adjustments, was higher by $78,260 compared with 2009. This increase was primarily due to the increase in the reported loss of $83,158 compared to 2009. This increase in negative cash flow was also increased due to lower cash generation from the net change in non-cash working capital items of $166,044 as compared to 2009. This is primarily due to the level of trade receivables coming into the year and the timing of collection of trade receivables – at December 31, 2009 trade receivables were $177,035 as compared to $1,042,664 at December 31, 2008. In addition, the lower sales, and the timing of these sales, in the second quarter of 2010 compared to the same period in 2009 resulted in a lower amount of sales being uncollected at the quarter end – at June 30, 2010 trade receivables were $58,718 compared to $994,792 at June 30, 2009.

- Cash used in investing activities relates to additions to property and equipment which amounted to $19,911 in the first half of 2010 and $195,054 in the same period of 2009. In 2009 the Company was constructing a new piece of production equipment and had spent $150,630 as of June 30, 2009.

- Cash from financing activities was $399,397 in the first half of 2010 compared to $152,371 cash from financing activities in the same period in 2009. In January 2010, the Company completed the private placement for $500,000, which resulted in net proceeds to the Company of $444,384, after issue costs (see note 8 to the Consolidated Financial Statements at June 30, 2010). In 2009, the Company received a loan of $200,000 from the AFSC to build a new piece of production equipment. In 2010, repayments on the subordinated secured debentures which were issued in January 2010 were $5,406. There were no repayments on the AFSC loans in either period as the terms of these loan agreements provide for repayments only in the period July to December of each year. Cash flow in the first half of 2010 was adjusted for restricted cash of $19,327. This is new in 2010 and relates to the requirement to use 3% of cash revenues collected each quarter, as determined from the date of issue, to repay the subordinated secured debentures issued in January 2010. In 2010, repayments on capital lease obligations were $20,254 as compared with $47,629 in the same period of 2009. In 2009, the amount includes a lease buyout of $26,580 for a piece of equipment required for a project in Adak, Alaska.

G. Liquidity and Capital Resources

At June 30, 2010, the Company had consolidated net working capital (current assets, excluding cash, restricted cash, less trade and other payables) of $347,593 compared to $448,343 at December 31, 2009. The decrease of $100,750 is itemized in the table on the following page:

	June 30 2010	December 31 2009	Change
Working capital			
Trade and other receivables	$ 66,256	$ 179,347	$ (113,091)
Inventory	413,179	440,719	(27,540)
Prepaid expenses and deposits	79,252	59,596	19,656
	558,687	679,662	(120,975)
Less: Trade and other payables	211,094	231,319	(20,225)
Total Net Consolidated Working Capital	$ 347,593	$ 448,343	$ (100,750)

The decrease in consolidated net working capital of $100,750 is principally due to the decrease in trade receivables due to the decrease in sales in the second quarter of 2010 as compared to the last quarter of 2009 as partially offset by a corresponding decrease in trade payables as a result of this reduced activity. For further analysis of the changes in consolidated working capital refer to Section E - Consolidated Balance Sheet herein.

As of June 30, 2010, the Company had a negative cash position of $1,190 (cash in bank of $13,800 net of bank operating line of $15,000) and other net working capital of $347,593.

In the second quarter of 2010, the Company`s demand operating facility with a Canadian chartered bank was modified to provide $1,500,000 for the period from the first of July to end of September and reducing to $1,000,000 on October 1, 2010. The reduction of the line of credit was made to put it more in line with the Company’s seasonal business cycle and cash flow requirements. The terms also allow for temporary increases above the established line provided trade receivables are in place to support the higher loan level. Under the facility, the bank will advance up to a maximum of 75% of total trade 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 June 30, 2010 the Company had utilized $15,000 ($nil at December 31, 2009) of its operating line and was in full compliance with its debt covenants. The Company uses this facility to finance working capital requirements as required. Based on the restrictions in the operating facility the actual operating line availability at June 30, 2010 was $208,000 ($318,000 at December 31, 2009).

The realization of the net working capital as at June 30, 2010, 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 fall of 2010. Ongoing liquidity is dependent on the Company achieving sales. The Company has no capital spending commitments at June 30, 2010 and any capital spending in 2010 is to be funded from internal cash flows.

The Company defines its capital as the AFSC Loans, the subordinated secured debentures, the capital 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 19 - Capital management - to the Consolidated Financial Statements as at June 30, 2010, was $2,147,476 as compared to $2,394,878 at December 31, 2009. The decrease of $247,402 was the result of the increase in long term debt of $388,079 derived from the issue of the subordinated secured debentures (see note 8 to the Consolidated Financial Statements at June 30, 2010), the decrease in capital lease obligations due to scheduled repayments of $20,254, and the decrease in shareholders’ equity of $615,227 (see E. Consolidated Balance Sheet for details).

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There has been no material change in the commitments of the Company to that reported in the audited Consolidated Financial Statements and MD&A for the year December 31, 2009.

H. Off Balance Sheet Arrangements

There were no off balance sheet arrangements at June 30, 2010 or December 31, 2009.

I. Transactions with Related Parties

In first quarter of 2010, employees, directors and relatives of certain employees subscribed for $230,000 of the subordinated secured debentures (see Note 8 to the Consolidated Financial Statements as at June 30, 2010). In the second quarter of 2010 employees, directors and relatives of certain employees were paid scheduled interest payments of $6,900 and repayments of $2,487 on the subordinated secured debentures. There were no other significant related party transactions and these were in the normal course of operations and measured at the exchange rate.

J. Critical Accounting Estimates and Going Concern Assumption

Critical Accounting Estimates

The preparation of financial statements in conformity with GAAP 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 are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. Provisions are made for slow moving and obsolete inventory. Amortization of property 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.

In the quarter ended June 30, 2010 the Company had to estimate the amount of the subordinated secured debentures that are repayable within the next twelve months. The subordinated secured debentures are repayable on a quarterly basis based on a fixed percentage of cash revenues collected in the particular quarter. In order to estimate the amount that would be required to be repaid over the twelve months following June 30, 2010, management was required to forecast future revenues and the cash collection of this future revenue.

Estimates of the fair value of stock options and share purchase warrants require the use of estimates and assumptions including stock price volatility, forfeiture rates, and risk-free interest rates in the year granted. Changes to these estimates and assumptions may materially affect the calculations.

Management believes that the estimates are reasonable; however, actual results could differ from these estimates. These estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in income in the periods in which they become known.

Going Concern Assumption

The consolidated financial statements as at June 30, 2010 have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has accumulated losses amounting to $6,427,885 at June 30, 2010 (as at December 31, 2009 - $5,687,235). Cash flows from operations was negative $490,986 for the six months ended June 30, 2010 compared to negative $246,682 for the same period in 2009. The Company's ability to continue as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations as they come due, to obtain additional financing as may be required, and ultimately to obtain successful operations. However, no assurance can be given at this time as to whether the Company will achieve any of these conditions. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern for a reasonable period of time.

K. Changes in Accounting Policies including Initial Adoption

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

Future Accounting Policies

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

In January 2006, the Canadian Institute of Chartered Accountants ("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 substantially completed its IFRS conversion project in 2009 and 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 ("componentization"). 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 most significant change as a result of adopting IFRS will be the effect on earnings from the componentization of property and equipment for purposes of determining depreciation expense. The Company has substantially completed this work and the impact on earnings is not material. In addition, as part of this review the Company has initiated a depreciation study which is expected to be completed in the fourth quarter of 2010. The impact, if any, on earnings from this study is not known at this time.

The Company continues to monitoring IFRS developments and all changes to pronouncements prior to January 1, 2011 will be incorporated as required. As well, the Company is 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, at which time the Company will adopt. 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, at which time the Company will adopt. The Company does not expect any material impact from the adoption of these standards.

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, at which time the Company will adopt. The Company does not expect any material impact from the adoption of these standards.

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 International Accounting Standards Board.

L. 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 June 30, 2010 or December 31, 2009.

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 has $15,000 outstanding on this credit facility at June 30, 2010 ($nil at December 31, 2009). Future cash flow requirements could require the Company to utilize its line of credit to finance working capital for short periods of time and during these time periods it would be exposed to interest rate risk.

Credit Risk

Financial instruments that subject the company to credit risk consist primarily of trade receivables. The Company manages credit risk using credit approval and monitoring practices. At June 30, 2010, 3 customers accounted for approximately 94% of trade receivables (at December 31, 2009, 3 customers accounted for 95% of trade receivables).

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 June 30, 2010 and December 31, 2009:

	Trade Receivables Aging		Holdback Amounts Included	
	2010	2009	2010	2009
1-30 days	$ 46,013	$ 91,815	$ -	$ -
30-60 days	8,940	79,452	-	76,709
61-90 days	-	5,677	-	5,677
Greater than 90 days	3,765	91	91	91
	$ 58,718	$ 177,035	$ 91	$ 82,477

The Company had no impaired trade receivables at June 30, 2010 and December 31, 2009.

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 June 30, 2010 and December 31, 2009, the Company had access to $1,500,000 in bank operating line financing subject to advance restrictions on the level of receivables and inventories. Based on these restrictions the actual operating line availability at June 30, 2010 was $208,000 (December 31, 2009 $318,000). In the second quarter of 2010, the Company`s demand operating facility with a Canadian chartered bank was modified to provide $1,500,000 for the period from the first of July to the end of September and reducing to $1,000,000 on October 1, 2010. The reduction of the line of credit was made to put it more in line with the Company's seasonal business cycle and cash flow requirements. The terms also allow for temporary increases above the established line provided trade receivables are in place to support the higher loan level. At June 30, 2010, $15,000 was drawn down under this facility to finance working capital ($Nil at December 31, 2009).

M. Disclosure of Outstanding Share Data

As at June 30, 2010 and August 12, 2010, the following is a description of the outstanding equity securities and convertible securities previously issued by the Company

	Authorized	**Outstanding as at June 30, 2010**	**Outstanding as at August 12, 2010**
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 2,870,825 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
Securities convertible or exercisable into voting or equity securities – share purchase warrants	Share purchase warrants to acquire 1,000,000 Common Shares	Share purchase warrants to acquire 1,000,000 Common Shares at an exercise price of $0.15	Share purchase warrants to acquire 1,000,000 Common Shares at an exercise price of $0.15

In the six months ended June 30, 2010, the Company granted options to acquire common shares of the Company as follows:

- On February 5, 2010, the Company granted stock options to the Howard Group, a company hired to provide investor and financial relation services, to enable it to acquire 300,000 common shares of the Company at an exercise price of $0.12. These stock options will vest as to one quarter every three months from the date of grant and expire three years from the date of grant.

- On March 16, 2010, the Company granted stock options to a new director to enable him to acquire 150,000 common shares of the Company at an exercise price of $0.30. These stock options will vest as to one third immediately and one third on the first and second anniversary date of the grant and expire in five years.

O. Outlook

Management expects 2010 to be another difficult year due to lower than anticipated sales growth in the infrastructure market and slower than expected rebounding of sales in the oil sands/refinery market.

The volume of quotes that the Company has made year to date is substantially higher than in any previous year at this point in time with most of these quotes being in the infrastructure market. However, the realization of these potential sales has been affected by issues associated with the early market stage of the infrastructure market. These issues are the same as those experienced by the Company in the early market development of the oil sands/refinery market, namely, the engineering acceptance of the Company’s product together with the sole source provider issues discussed in the MD&A for the year ended December 31, 2009 (see Section D. Key Market Drivers). It took the Company time to overcome these issues in the oil sands/refinery market and it will take time in the infrastructure market as well. The approval of the use of the Company’s product for infrastructure projects by the respective authorities in each province is a critical component for development of this market, however, in itself is only one of the factors for sales growth.

Even with these issues, the Company expects future growth of sales in the infrastructure market and a rebounding of sales in the oil sands/refinery market with continued marketing in both markets and growing experience from completed projects. In the meantime, the Company continues to manage its costs in line with the expected sales levels, with the objective of breakeven earnings and positive cash from operations.

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Form 51-102F1 - Management's Discussion & Analysis
For the Quarter Ended June 30, 2010

Appendix A – Forward Looking Statements

The forward-looking statements in the MD&A for the quarter ending March 31, 2010 are outlined below:

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Management expects 2010 to be another difficult year due to lower than anticipated sales growth in the infrastructure market and slower than expected rebounding of sales in the oil sands/refinery market.

The foregoing statement is forward looking and is based on the financial results after six months as well as sales from projects on which the Company has contracts in place or has outstanding project bid quotes as of June 30, 2010. The principal assumptions are that the projects on which bid quotes are made result in sales and that these projects occur as forecast. The principal risks that could affect these assumptions include the bid quotes do not result in sale, the projects that result from the bid quote occur earlier or later than forecast or there are new projects that are awarded for work in 2010 that arise from new bid quotes made after the date of this MD&A..

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Even with these issues, the Company expects future growth of sales in the infrastructure market and a rebounding of sales in the oil sands/refinery market with continued marketing in both markets and growing experience from completed projects.

The foregoing statement is forward looking. In the infrastructure market the future growth in sales is based on the significant increase in infrastructure bid quotes made by the Company year to date in 2010 relative to previous years for infrastructure projects, the experience gained with roadwork, bridge abutment and tunnel grouting projects within the infrastructure market from Ontario to British Columbia and the Northwest Territories over the last few years, the expectation that the Company's products will be approved for use by various provincial authorities in the markets that the Company currently services over the next few months and the positive response from engineering firms on the potential use of the Company's products on infrastructure projects. The principal assumptions are that the increase in infrastructure projects on which bid quotes have been made, that the experience gained on projects in this market will assist in gaining product acceptance, that product approval by the various provincial authorities in the markets that the Company services and the continued positive response from engineering firms to design the Company's products into projects will result in increased sales. The principal risks that could affect these assumptions include the increased number of bid quotes do not result in sales, that product acceptance takes longer than expected, that the Company does not receive all of the necessary approvals from provincial authorities for the use of its product or if approved increased sales do not result and the positive response from engineering firms does not translate to increased sales. In the oil sands/refinery market this is based on the Company's historical experience in this market, the contracts that were in place, prior to the deferral of a number of projects in 2008 and 2009 as a result of the world wide economic downturn and the announcement that a number of these projects as well as new projects are to proceed over the next few years. The principal assumptions are that the contracts that the Company had in place prior to the downturn in this market sector are reinstated as these projects proceed and that the Company is awarded projects on some of the newly announced oil sands/refinery projects based on its historical experience in this market sector. The principal risks that could affect these assumptions include the contracts that the Company had in place are not reinstated or the projects are indefinitely delayed and that the Company's experience does not result in new project sales.