

**CEMATRIX CORPORATION**  
**Management's Discussion and Analysis**  
*For the Year Ended December 31, 2010*

Date Completed: March 23, 2011

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

**Form 51-102F1 - Management's Discussion & Analysis**  
**For the Year Ended December 31, 2010**

*The following is the management's discussion and analysis ("MD&A") of CEMATRIX Corporation ("CEMATRIX" or the "Company") for the year ended December 31, 2010. This MD&A should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 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](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 2010 audited consolidated financial statements and MD&A for the year ended December 31, 2010 and the Board of Directors of the Company has reviewed and approved them on March xx, 2011.

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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 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, 2010, the Company's financial condition as at December 31, 2010 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 (roads, bridge abutments, shallow utilities, void fill/grouting, tunnel grouting etc.) 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 automated, except to the extent that the slurry required is delivered by a ready mix provider, and has lower hourly production capability.

The Company's 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 35 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 than or comparable to 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.

### *Highlights of the fourth quarter*

- The Company earned net income of \$65,744 on sales of \$1.329 million. This compared to a reported loss of \$492,312 on sales of \$165 thousand in the same quarter of 2009.

- Cash from operations was \$163,752, before adjustment for non-cash working capital, which compared to a use of cash from operations of \$420,652 in the same period of 2009.

- The Company executed new sales contracts in the fourth quarter in the amount of \$0.9 million, bringing the total sales contracted in 2010 for work to be completed in 2011 to \$1.6 million.

- 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.

### *Annual overview and highlights*

The 2010 year was another challenging year for the Company for a variety of reasons including the following:

- Even though several postponed oil sands projects were announced as restarting, these projects had little effect on the Company's sales for 2010, as most of these projects remain in the engineering phase. Prior to the economic downturn, which began in the fall of 2008, over 90% of the Company's sales were in the oil and gas sector, specifically oil sands and refinery construction and expansion projects;
- Although the Company has seen growth in its infrastructure markets, this growth has been slow, largely due to the length of time it takes to develop this new market and to obtain various approvals, including the Ministry of Transportation of Ontario ("MTO") approval of the Company's product for various applications in Ontario.
- Several contracted projects, scheduled to be completed in 2010, were postponed to the first quarter of 2011, due to delays in the completion of other portions of the affected projects that were required to be completed by third parties before the Company could place its material.

During 2010, the Company was able to advance its market development and maintain or establish a strong foundation for future business as follows:

1. The Company maintained its development of the Western Canadian oil and gas construction market, through numerous business development presentations to engineering firms in the design of various refinery and oil sands construction projects. A small portion of some of these projects went ahead in 2010, but most have been scheduled to commence construction activities no earlier than late 2011. The 2010 work on some of these projects included a number of tank base applications that were originally scheduled and/or contracted for completion in the fall of 2008.
2. The Company continued to expand its business into the infrastructure market in Alberta, British Columbia, Northwest Territories, Manitoba, Ontario and other parts of Canada. Infrastructure sales, which tend to be more stable, now account for the most significant part of the Company's sales. In 2010, infrastructure sales accounted for 64% of the Company's total sales and this percentage is expected to continue to increase in 2011.
3. The Company continued working towards final approval of its product by the MTO, a process that has taken much longer than Management had originally expected. The Company will be filing additional material requested by the MTO in April 2011 and, based on discussions with MTO officials, is reasonably optimistic of receiving product approval by mid-2011. The MTO product approval will enable the Company's products to be specified into MTO projects throughout Ontario and for many regional and municipal infrastructure projects. Many of the regions and municipalities rely on the product approval system of the MTO.

4. The Company began to actively pursue work in the United States where cellular concrete is a well accepted construction material in most states and is specified into construction projects in the normal course, as opposed to Canada where the market is still in the early development stage. Although there are numerous cellular concrete projects let each year in the United States, there is also more competition which results in pressure on prices and margins. Fortunately, the Company's technology development and large volume capabilities enable it to be very competitive in the United States and this is reflected in the 2011 projects which have been contracted by the Company (see Q. Outlook).
5. The Company maintained the cost control measures instituted in 2009. These measures include reduced work weeks, reduced salaries for senior management and the elimination of all discretionary expenditures. These control measures enabled the Company to reduce its overhead in general and administration and sales, marketing and engineering by an additional 16%, which is a further reduction to the reductions achieved in 2009. In addition, direct labour and fixed costs were reduced by 17%.

Despite the sales challenges and results for 2010 there were some important highlights in the year as follow:

- Retained key operators and other staff;
- Operated without any loss time incidents;
- Established a relationship with a major tunnelling company in Ontario which has lead to one project in 2010 and two for 2011;
- Continued to expand its infrastructure contacts in Ontario and other parts of Canada;
- Received its contractor license in the state of California, which will allow it to bid on projects in this state where cellular concrete is in wide use;
- Received its first contract for work in the United States in early 2011 and began work on this project in February 2011(see Q. Outlook);
- Continued to progress the Company's application for product approval with the MTO;
- Continued its support with the University of Alberta to continue to research and test the properties of cellular concrete;
- Completion of 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 from 2004 to 2009 was in 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.

CEMATRIX is now focusing on expanding its infrastructure markets geographically into British Columbia and Eastern Canada and in the United States, where the market for cellular concrete is more developed, while maintaining and growing its business in the oil and gas construction market. 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.

#### **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 continue to allocate significant funds to infrastructure construction, 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.

##### ***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 have recovered in 2010. 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. Many of these are still in the engineering stage.

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.

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 will assist in the development of these markets. The Company's marketing efforts in these new territories have already resulted in a number of projects that have been completed or are scheduled for completion in early 2011.

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 prepared and filed in late 2009 a submission to the MTO for approval of the use of CEMATRIX cellular concrete as light weight material on projects for the MTO. In addition, the Company has filed for approval of its product for various applications with 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 several 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 can arise 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. This is less of an issue in the United States where there are a number of established cellular concrete companies. 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.

### ***Staffing Requirements***

As a result of cost reduction measures, which commenced in the spring of 2009, the Company has had to lay off a number of people. Fortunately, it has retained its key equipment operators and other staff. A challenge in 2011 will be to recruit skilled labour if sales demand increases more quickly than anticipated. In Ontario and the United States, the Company has established relations with the appropriate unions that have helped in providing labour and operators in these markets.

### ***Cement Supply***

The Company does periodically experience shortages in its key raw material, cement. 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 units 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***

In previous years the Company has experienced significant increases in the cost of its key raw materials, cement and flyash. 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 remained relatively stable over the past few years and the Company has been advised by its suppliers of minor increases for 2011. 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.

### ***Competition***

Although the Company is the only significant supplier of cellular concrete in Alberta and the rest of 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 (i) ensuring that its costs are competitive in relation to costs being incurred by other companies in the industry; and (ii) striving to ensure that it 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 Company began 2010 with a record first quarter in terms of sales volume and the prospects for other projects were favorable. Subsequently the Company began to receive notification that a number of projects were being delayed until later in 2010 or into 2011. The second quarter sales, which normally are fairly strong, were only \$145 thousand, the lowest that they have been since before 2005. The Company had a reasonably strong third quarter with over \$967 thousand in sales and a strong fourth quarter with sales of \$1.329 million for a total for 2010 of \$3.257 million, up by 24% compared to 2009. In addition, contracts were put in place for \$1.6 million in sales related to projects that were moved from 2010 into 2011.

Sales in the Alberta oil and gas sector, which were significant in 2007 through 2009 and accounted for between 60% and 90% of the Company's revenues during that period, have been slow in coming back from the peak year in 2007. Of the energy sector oil sands projects which were halted in late 2008, as a result of the worldwide economic collapse, some have recently been re-started and are now only in the planning/engineering stage, but there are still some that are still deferred. In addition, the spending on these projects has been curtailed substantially and is being stretched over multiple years. The Company remains active in pursuing and placing bids for work in this sector.

In 2010, the Company continued its efforts to expand its business into the infrastructure market in Alberta, British Columbia, Northwest Territories, Manitoba, Ontario and other parts of Canada. Infrastructure sales, which tend to be more stable, account for the most significant part of the Company's sales; in 2010 they were over 60%.

### ***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 into 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.

***Comparison of the Quarter Ending December 31, 2010 and December 31, 2009***

	Three Months Ended December 31		
	2010	2009	Change
Revenue	\$ <b>1,329,016</b>	\$ 165,134	\$ 1,163,882
Gross margin	\$ <b>481,904</b>	\$ (109,241)	\$ 591,145
Operating expenses	<b>(365,554)</b>	(379,801)	14,247
Operating income (loss)	<b>116,350</b>	(489,042)	605,392
Finance costs	<b>(50,597)</b>	(6,521)	(44,076)
Non-operating income (expenses)	<b>(9)</b>	3,251	(3,260)
Net income (loss)	<b>\$ 65,744</b>	<b>\$ (492,312)</b>	<b>\$ 558,056</b>
Earnings (loss) per common share	<b>\$ 0.002</b>	<b>\$ (0.015)</b>	<b>\$ 0.017</b>

Total revenue for the quarter ended December 31, 2010 was \$1,329,016 as compared to \$165,134 for the same quarter in 2009, an increase of \$1,163,882. Sales volumes were up substantially compared to the same period in 2009. This was principally due to a general improvement in the Company's markets as compared to 2010 and also the effect in 2010 of the delay to the fourth quarter in the start date of a number of projects originally scheduled for earlier in the year. Sales in the last quarter of 2009 were abnormally low due to the slow recovery of the Company's markets from the recession of late 2008 and early 2009.

The gross margin on sales was \$481,904 or 36% in the fourth quarter of 2010 as compared to a negative margin of \$109,241 in the same period of 2009, an increase of \$591,145. This increase is the result of the substantially higher sales of cellular concrete and the focused reduction in direct labour, variable and fixed costs.

Total operating expenses for the quarter ended December 31, 2010 were \$365,554 as compared to \$379,801 in the same quarter of 2009. This \$14,247 decrease is due to the aggregate effect of the following:

- General and administrative costs decreased by \$6,262 – the decrease in 2010 as compared to 2009 was principally due to reduced facility rental costs due to a negotiated reduction;
- Sales, marketing and engineering costs decreased by \$9,672 – salaries and associated benefits decreased by \$5,466 – this was due to a reduction in staff and the effect of a reduction of salaries and work hours; and other costs were down \$4,206 due to cost reduction efforts and constraints put in place by the Company;
- Stock based compensation was higher by \$15,777 – this was principally due to true up adjustments on stock options for certain directors which became fully vested and for options granted in the first quarter of 2010 to the Howard Group, a company hired to provide investor and financial relation services; and

- Depreciation and amortization decreased by \$14,090 – the amortization of intangibles decreased by \$19,268 as product development costs and patents were fully amortized in 2009; depreciation of property and equipment increased by \$5,178 due to higher volumes of dry mix sales and the associated unit of production method of depreciation;

Finance costs increased by \$44,076 – 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 \$24,661 recorded relative to the subordinated secured debentures;.

The net income for the quarter ended December 31, 2010 was \$65,744 compared with a net loss of \$492,312 for the same period in 2009. The improvement of \$558,056 is principally due to the higher sales in 2010 combined with continued focused cost management.

***Comparison of the year ending December 31, 2010 and December 31, 2009***

	Year Ended December 31		
	2010	2009	Change
Revenue	\$ 3,257,197	\$ 2,627,847	\$ 629,350
Gross margin	\$ 944,891	\$ 501,270	\$ 443,621
Operating expenses	(1,517,762)	(1,778,129)	260,367
Operating loss	(572,871)	(1,276,859)	703,988
Finance costs	(172,187)	(26,420)	(145,767)
Non-operating income (expenses)	(228)	(6,525)	6,297
Net loss	\$ (745,286)	\$ (1,309,804)	\$ 564,518
Loss per common share	\$ (0.02)	\$ (0.04)	\$ 0.02

Total revenue for the year ending December 31 30, 2010 was \$3,257,197 as compared to \$2,627,847 for the same period in 2009, an increase of \$629,350 or 24%. Sales volumes were up by 47% and selling prices were down over 13%. The decline in selling prices is principally due to the decline in sales in the Alberta oil sands/refinery sector where selling prices reflects the higher cost of cement in this region.

In 2009 the Company was still benefitting from project work in the Alberta oil sands/refinery sector with this sector accounting for \$1.690 million or 67% of the sales of cellular concrete. This market, which fell off in 2009 with the cancellation or deferral of many oil sands/refinery sector projects being announced due to the world economic collapse of late 2008 and 2009, has been slow to return. Even though some 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 2010 were \$1.183 million or 36% of sales.

This decline in sales in the oil sands/refinery sector has been offset by an increase in infrastructure sales of \$1.218 million over 2009. Infrastructure sales accounted for 64% of sales in 2010. The Company began to diversify into the infrastructure market in early 2009 and this market is steadily expanding.

In 2009, revenues of \$84,203 related to a project in Adak, Alaska involving the rental of one of the Company's pieces of equipment and the sale of cement and foaming agent. There were no comparable sales in 2010.

The gross margin on sales was \$944,891 or 29% in 2010 as compared to \$501,270 or 19% in 2009. This improvement of \$443,621 is due to increase in sales of cellular concrete as partially offset by the margin on equipment rental realized in 2009. The Company was also able to improve the margin from sales by working diligently to reduce direct labour, variable and fixed costs.

Total operating expenses for 2010 were \$1,517,762 as compared to \$1,778,129 in 2009. This \$260,367 or 15% decrease is due to the aggregate effect of the following:

- General and administrative costs were down by \$35,641 – salaries were down \$10,826 due to the effect of a reduction of salaries and work hours that was put in place after March 1, 2009; consulting costs were down \$9,000 due to costs incurred in 2009 in regard to establishing labour relations in Ontario; facility rental costs were down \$11,000 due to negotiated rental reductions and other costs were down by \$4,815;
- Sales, marketing and engineering costs decreased by \$204,896 – salaries decreased by \$120,560 – 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 \$54,994 due to cost constraints and the fact that in early 2009 the Company undertook a major marketing effort in developing the Ontario infrastructure market; and other costs were down \$29,342 due to cost reduction efforts and constraints put in place by the Company;
- Stock based compensation was higher by \$39,296 as a result of (i) 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 (ii) a true up adjustments for options granted to certain directors which became fully vested in 2010; and
- Depreciation and amortization decreased by \$59,126 – the amortization of intangibles decreased by \$77,048 as product development costs and patents were fully amortized in 2009; depreciation of property and equipment increased by \$17,922 due principally to higher depreciation on the Company's dry mix units, which are depreciated based on unit of production method, and dry mix volumes were up substantially.

Finance costs increased by \$145,767 – 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 \$56,500 and non cash accretion expense of \$85,937 recorded relative to the subordinated secured debentures. Other interest costs increased by \$3,330.

Non-operating income and expenses in 2010 of \$228 primarily represents foreign exchange expense. The comparable amount in 2009 was \$407 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 2010 was \$745,286 compared with a net loss of \$1,309,804 for the same period in 2009. The reduction in the loss of \$564,518 is due to improved sales, cost reductions and constraints put in place by the Company and the effect of lower amortization of intangibles, which has more than offset higher finance costs related to the subordinated secured debentures that were issued as part of the private placement completed in January of 2010.

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

### Annual Results

The table below 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, 2010	3,257,197	(745,286)	(0.02)	(0.02)	2,972,268	313,491
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 below:

Quarters Ended	Total Revenues	Net Income (Loss) Total	Net Income (Loss) Per Share	
			Basic	Diluted
			\$	\$
<b>2010 Year</b>				
March 31	816,145	(213,924)	(0.006)	(0.006)
June 30	144,752	(526,726)	(0.016)	(0.016)
September 30	967,284	(70,380)	(0.002)	(0.002)
December 31	1,329,016	65,744	0.002	0.002
Total for year	3,257,197	(745,286)	(0.022)	(0.022)
<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)

## H. Consolidated Balance Sheet

	December 31 2010	December 31 2009	Change
Total current assets	\$ 1,251,279	\$ 789,972	\$ 461,307
Total non current assets	<u>1,720,989</u>	<u>1,836,225</u>	<u>(115,236)</u>
Total Assets	\$ <u>2,972,268</u>	\$ <u>2,626,197</u>	\$ <u>346,071</u>
Current liabilities	\$ 1,174,771	\$ 370,430	\$ 804,341
Non current liabilities	<u>313,491</u>	<u>186,808</u>	<u>126,683</u>
Total liabilities	\$ <u>1,488,262</u>	\$ <u>557,238</u>	\$ <u>931,024</u>
Shareholders' equity	\$ <u>1,484,006</u>	\$ <u>2,068,959</u>	\$ <u>(584,953)</u>

Total current assets were \$1,251,279 at December 31, 2010 compared to \$789,972 at December 31, 2009. This increase of \$461,307 was due to the aggregate effect of the following:

- Cash was down \$106,662 (see the discussion in Section L - Consolidated Statement of Cash Flows);
- Restricted cash of \$23,047 was reported as at December 31, 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 up by \$585,389 as a result of the higher sales in the fourth 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 \$46,247 due to its consumption in the production process; and
- Prepaid expenses and deposits were up \$5,780 due to the prepayments in 2010 for 2011 trade shows, trade association memberships and flight costs in order to receive price discounts and reduce costs.

Total non current assets were \$1,720,989 at December 31, 2010 compared to \$1,836,225 at December 31, 2009. This decrease of \$115,236 was due to the aggregate effect of the following:

- Property and equipment was down \$115,236 – cash additions to plant and equipment were \$24,404, new capital leases on equipment were \$30,204 and depreciation expense for 2010 was \$169,844; and
- 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 \$1,174,771 at December 31, 2010 compared to \$370,430 at December 31, 2009. This increase of \$804,341 was due to the aggregate of the following:

- There was a bank overdraft of \$113,363 at December 31, 2010 with no comparable amount at December 31, 2009;
- The bank operating loan was \$511,348 at December 31, 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; and- Trade and other payables were up \$29,101 principally due to increased business activity in the fourth quarter of 2010 compared to the last quarter of 2009;

- Current portion of long term debt was up \$150,150. The increase represents the Company's estimate of \$230,000 as 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 13 to the Consolidated Financial Statements at December 31, 2010) as partially offset by a decline in the amount due on the Agricultural Financial Services Corporation ("AFSC") Loans due to repayment of the AFSC Loan 1 and adjustments to the AFSC Loan 2 to reflect repayments.; and

- Current portion of capital lease obligations was up \$379 compared to the level as at December 31, 2009 due to scheduled repayments as partially offset by the impact of new capital equipment leases.

Total non current liabilities were \$313,491 at December 31, 2010 compared to \$186,808 at December 31, 2009. This increase of \$126,683 was due to the aggregate effect of the following:

- Long term debt was up \$142,441. This increase is due to the issue of the subordinated secured debentures issued as part of the private placement in January 2010 (see note 13 to the Consolidated Financial Statements at December 31, 2010) partially offset by repayments on the AFSC Loan 2. 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 face 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 \$85,937 in 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 \$49,514; and

- Capital lease obligations decreased \$15,758 compared to the level as at December 31, 2009 due to repayments in 2010 of \$45,583, new capital equipment leases of \$30,204 and the decrease in the current portion as discussed above.

Shareholders' Equity was \$1,484,006 at December 31, 2010 compared to \$2,068,959 at December 31, 2009. This decline of \$584,953 is due to the aggregate effect of 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 13 and 16 to the Consolidated Financial Statements at December 31, 2010);

- Contributed surplus increase is due the stock based compensation charge of \$71,456; and

- The deficit increased by the loss in the period of \$745,286.

See the Consolidated Statements of Shareholders' Equity included in the Consolidated Financial Statements at December 31, 2010.

## **L. Consolidated Statement of Cash Flows**

### ***Comparison of the Quarter ending December 31, 2010 and December 31, 2009***

The cash position of the Company at December 31, 2010 was a negative \$109,715 (consisting of cash of \$3,648 and, a bank overdraft of \$113,363) compared to negative cash of \$9,524 (consisting of cash of \$2,828 and, a bank overdraft of \$12,352) at September 30, 2010. The change in cash in the fourth quarter of 2010 was a decrease of \$100,191 as compared to an increase of \$90,050 in the same period of 2009. This change is outlined in the table on the next page:

	Three Months Ended December 31		
	2010	2009	Change
Cash provided by (used in) operating activities			
Before non-cash working capital adjustment	\$ 163,752	\$ (420,652)	\$ 584,404
Net change in non-cash working capital items	(217,802)	572,638	(790,440)
	(54,050)	151,986	(206,036)
Cash used in investing activities	(3,855)	(199)	(3,656)
Cash provided by (used in) financing activities	(42,286)	(61,737)	19,451
Increase (decrease) in cash	(100,191)	90,050	(190,241)
Cash, at beginning of period	(9,524)	20,260	(29,784)
Cash, at end of period	\$ (109,715)	\$ 110,310	\$ (220,025)
<b>Cash</b>			
Cash in bank	\$ 3,648	\$ 110,310	\$ (106,662)
Bank overdraft	(113,363)	-	(113,363)
	\$ (109,715)	\$ 110,310	\$ (220,025)

- The Company used \$54,050 in cash from operating activities, after considering changes in non-cash working capital, in the fourth quarter of 2010 as compared to generation of cash of \$151,986 in the same period in 2009, a decrease of \$206,036.

- The cash flow, before non cash working capital adjustment, of \$163,752 was higher by \$584,404 compared with 2009. This increase was primarily due to the increase in the earnings of \$564,518 compared to the same period in 2009.

- This improvement was more than offset by lower cash generation from the net change in non-cash working capital items of \$790,440 as compared to the same period of 2009. In the fourth quarter of 2010 the sales were not all collected as at the end of the quarter. In addition, in 2010 the level of trade receivables coming into the quarter, which were collected in the quarter, was lower than the same period in 2009. In the fourth quarter of 2009 the sales were significantly lower. In addition the level of trade receivables entering into the fourth quarter of 2009 and collected was higher than in 2010.

- Cash used in investing activities relates to additions to property and equipment which amounted to \$3,855 in the fourth quarter of 2010 and \$199 in the same quarter of 2009.

- Cash used in financing activities was \$42,286 in the fourth quarter of 2010 compared to a use of \$61,737 in the same period in 2009, a decrease of \$19,451. The decrease is primarily due to the drawdown of the Company's bank operating line of \$61,348 in the fourth quarter of 2010 to finance working capital and is partially offset by the repayments on the subordinated secured debentures which were issued in January 2010 of \$24,431. Cash flow in the third quarter of 2010 was also negatively adjusted for the movement in restricted cash of \$13,462. 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. Repayments of the AFSC loans and repayments of capital lease obligations increased by \$4,004, principally due to new equipment capital leases.

#### ***Comparison of the Year Ending December 31, 2010 and December 31, 2009***

The cash position of the Company at December 31, 2010 was a negative \$109,715 (consisting of cash in the bank of \$3,648 and a bank overdraft of \$113,363) compared to cash in the bank of \$110,310 at December 31, 2009. The change in cash in the year ended December 31, 2010 was a decrease of \$220,025 as compared to a decrease of \$371,492 in the same period of 2009. This change is outlined in the table on the following page:

	Year Ended December 31		
	2010	2009	Change
Cash provided by (used in) operating activities			
Before non-cash working capital adjustment	\$ (418,049)	\$ (1,020,956)	\$ 602,907
Net change in non-cash working capital items	(515,821)	860,760	(1,376,581)
	(933,870)	(160,196)	(773,674)
Cash used in investing activities	(24,404)	(245,112)	220,708
Cash provided by (used in) financing activities	738,249	33,816	704,433
Increase (decrease) in cash	(220,025)	(371,492)	151,467
Cash, at beginning of period	110,310	481,802	(371,492)
Cash, at end of period	\$ (109,715)	\$ 110,310	\$ (220,025)
Cash			
Cash in bank	\$ 3,648	\$ 110,310	\$ (106,662)
Bank overdraft	(113,363)	-	(113,363)
	\$ (109,715)	\$ 110,310	\$ (220,025)

- The Company used \$933,870 in cash from operating activities, after considering changes in non-cash working capital, in 2010 as compared to use of cash of \$160,196 in the same period in 2009, an increase in use of \$773,674.

- The negative cash flow, before non cash working capital adjustment, was lower by \$602,907 compared with 2009. This improvement was primarily due to the lower reported loss of \$564,518 compared to 2009 combined with higher non cash adjustments.

- This improvement in the negative cash flow was more than offset by lower cash generation from the net change in non-cash working capital items of \$1,376,581 as compared to 2009. In the fourth quarter of 2010 the sales were up substantially from the same period in 2009 but not all of these sales were collected as at the end of the quarter. In addition the level of trade receivables coming into the year and collected during the year was significantly lower in 2010 as compared to 2009.

- Cash used in investing activities relates to additions to property and equipment which amounted to \$24,404 in 2010 and \$245,112 in 2009. In 2009 the Company constructed a new piece of production equipment at a cost of \$200,000.

- Cash from financing activities was \$738,249 in 2010 compared to \$33,816 in 2009, an increase of \$704,433. At the end of 2010, the Company had used \$511,348 of its bank operating line to finance working capital. In addition, 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 13 to the Consolidated Financial Statements at December 31, 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 \$49,514. Cash flow in 2010 was adjusted for restricted cash of \$23,047 which represents the difference between the cash collected and repayments. 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. Repayments on the AFSC loans and repayments on capital lease obligations were down \$21,262 as compared with 2009 due principally to a lease buyout in 2009 for a piece of equipment required for a project in Adak, Alaska.

## J. Liquidity and Capital Resources

At December 31, 2010, the Company had consolidated net working capital (current assets, excluding cash and restricted cash, less trade and other payables) of \$964,164 compared to \$448,343 at December 31, 2009. The increase of \$515,821 is itemized in the table on the following page:

	December 31 2010		December 31 2009		Change
Working capital					
Trade and other receivables	\$ 764,736	\$	179,347	\$	585,389
Inventory	394,472		440,719		(46,247)
Prepaid expenses and deposits	65,376		59,596		5,780
	<u>1,224,584</u>		<u>679,662</u>		<u>544,922</u>
Less: Trade and other payables	(260,420)		(231,319)		(29,101)
Total Net Consolidated Working Capital	<u>\$ 964,164</u>	\$	<u>448,343</u>	\$	<u>515,821</u>

The increase in consolidated net working capital of \$515,821 is principally due to the increase in trade receivables resulting from higher sales in the fourth quarter of 2010 as compared to the same quarter of 2009. This is partially offset by a corresponding increase in trade payables as a result of this increased activity. For further analysis of the changes in consolidated working capital refer to Section H - Consolidated Balance Sheet herein.

Partially offsetting the consolidated working capital of \$964,164 at December 31, 2010 were a bank overdraft and a bank operating loan, a combined total of \$624,711. At December 31, 2009 there was no bank overdraft or bank operating loan.

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 was further reduced 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 historical 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 to be measured as at the end of each fiscal quarter.

At December 31, 2010 the Company had utilized \$511,348 (\$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 December 31, 2010 was \$710,000 (\$318,000 at December 31, 2009).

The realization of the net working capital as at December 31, 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 to the first part of 2011. Ongoing liquidity through the balance of 2011 is dependent on the Company achieving additional sales. The Company had no capital spending commitments at December 31, 2010.

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 29 - Capital management - to the Consolidated Financial Statements as at December 31, 2010, was \$2,087,127 as compared to \$2,394,878 at December 31, 2009, a decrease of \$307,741. Long term debt increased by \$292,591 which reflects the issue of the subordinated secured debentures recorded at \$355,507 (see note 13 to the Consolidated Financial Statements at December 31, 2010) and related accretion expense of \$85,937

as offset by repayments on the subordinated secured debentures of \$49,514 and repayments on the AFSC loans of \$99,339. Capital lease obligations decreased by \$15,379 due to scheduled repayments of \$45,583 as partially offset by new capital lease obligations for equipment of \$30,204. Shareholders' equity decreased by \$584,953 due to the loss reported of \$745,286 as partially offset by the issue of warrants \$88,877 and the increase in contributed surplus from stock based compensation charge of \$71,456. (See H. Consolidated Balance Sheet for details).

The following is a summary of the Company's lease and debt obligations and commitments for the next five years from December 31, 2010.

Debt Category	2011	2012	2013	2014
	\$	\$	\$	\$
Capital leases*	46,614	45,681	4,600	-
AFSC loans*	22,626	45,252	45,252	22,626
Operating leases	191,268	187,250	187,250	187,250

\*Includes principal and interest

The subordinated secured debentures are due in January 2013. The terms of this debt issue require that the Company make repayments on a quarterly basis based on 3% of revenues collected. The Company has estimated this amount to be \$230,000 for 2011 (see note 3 – Significant accounting policies – Measurement uncertainty and note 13 – Long term debt in the consolidated financial statements at December 31, 2010). The year to year uncertainty of the Company's sales makes it impractical to forecast revenues, and the cash collection thereof, for purposes of determining future cash repayments beyond 2011 and prior to the maturity of the subordinated secured debentures.

#### **K. Off Balance Sheet Arrangements**

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

#### **L. Transactions with Related Parties**

In 2010, employees, directors and relatives of certain employees subscribed for \$230,000 of the subordinated secured debentures (see Note 13 to the Consolidated Financial Statements as at December 31, 2010). In 2010 employees, directors and relatives of certain employees were paid scheduled interest payments of \$20,700 and repayments of \$22,776 on the subordinated secured debentures. During 2010, the Company incurred legal fees with a firm which employs one of the directors of the Company in the amount of \$4,687 (2009 – nil). There were no other significant related party transactions and these were in the normal course of operations and measured at the exchange rate.

#### **M. Critical Accounting Estimates and Going Concern Assumption**

##### ***Critical Accounting Estimates***

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period.

Accounts receivable 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 is based on the estimated useful lives of these assets.

Estimated recoverable amounts for investment tax credits are accrued when management is reasonably assured that the related expenditures will be deemed eligible by the taxation authorities. Actual recoverable amounts could differ materially from these estimates.

The impairment test for intangible assets is based on assumptions regarding future business volumes, sales prices, costs, cash flows, discount rates and other relevant assumptions.

Estimates of the amount of the subordinated secured debentures that are repayable within the next twelve months are required. 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 December 31, 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 warrants require the use of estimates and assumptions including stock price volatility, forfeiture rates, and risk-free interest rates in the year granted.

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.

Management believes that the estimates are reasonable; however, actual results could differ from these estimates.

### ***Going Concern Assumption***

The consolidated financial statements 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 \$6,432,521 at December 31, 2010 (as at December 31, 2009 - \$5,687,235). Cash flows from operations, before the net change in non-cash working capital items, was negative \$418,049 for the year ended December 31, 2010 compared to negative \$1,020,956 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. These 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.

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

In 2010, the Company early adopted the Canadian Institute of Chartered Accountants Handbook sections 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.

Under section 1582, the purchase price of a business combination is based on the fair value of consideration exchanged at the acquisition date and any contingent consideration of the acquisition is to be recognized at fair value at the acquisition date and subsequently re-measured at fair value with changes recorded through earnings each period until settled. In addition, this new guidance generally requires all transaction costs to be expensed through the income statement and any negative goodwill is required to be recognized immediately into earnings.

Section 1601, together with Section 1602, 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.

The adoption of these standards did not have any impact on the Company's consolidated financial statements.

### ***Future Accounting changes***

In October 2009, the Accounting Standards Board issued a third and final International Financial reporting Standards (IFRS) Omnibus Exposure Draft confirming that publicly accountable enterprises will be required to apply IFRS, in full and without modification, for all financial periods beginning January 1, 2011. The transition to IFRS at January 1, 2011 requires the restatement, for comparative purposes, of amounts reported by the Company for the year ended December 31, 2010, including the opening balance sheet as at January 1, 2010.

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, 2010 to align more closely with the requirements of IFRS. The Company has developed a changeover plan to complete the transition to IFRS by January 1, 2011, including the preparation of required comparative information. The overall impact of IFRS on the Company’s Consolidated Financial Statements is not reasonably determinable at this time.

The Company substantially completed its IFRS conversion project in 2010. It has identified the following major differences between current accounting policies and those required or expected to be required in preparing IFRS financial statements that will impact it.

#### ***IFRS 1 – First-time adoption of IFRS***

The initial application of IFRS requires an entity to comply with each IFRS standard effective at the date of transition. This requires the financial statements of the entity to be retroactively restated where the application of IFRS results in changes from Canadian GAAP. IFRS provides limited exemptions from these requirements in specified areas as well as specific exceptions where IFRS is not to be applied retroactively. Of the four exceptions and sixteen exemptions under IFRS 1, the Company is assessing whether it will utilize the exemption that allows the Company to fair value specific items of property and equipment at the date of transition and the exemptions not to restate for equity instruments, granted on or before November 7, 2002 or granted after November 7, 2002 that vest before January 1, 2010.

#### ***IAS 16 – Property, plant and equipment***

IAS 16 requires that assets be separated into their component parts and depreciation be expensed on a systematic basis over the useful life of the componentized assets. The application of this section could result in new depreciation policies. In addition the Company is reviewing whether it will elect to revalue specific items of property and equipment to fair market value on the transition date, which will, in turn, increase the carrying value of property and equipment. .

#### ***IFRS 2 – Share-based***

IFRS 2 requires that if options vest in installments, each tranche is to be considered a separate award with the compensation cost amortized accordingly. Under Canadian GAAP, separate tranches of an option award may be considered together for recognition purposes. The result of this treatment under IFRS as compared to Canadian GAAP is generally to accelerate the recognition of compensation expense

### **O. 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, 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;
- Bank overdraft, bank operating loan, trade and other payables and long term debt are classified as other financial liabilities.

The fair values of cash, trade and other receivables, bank overdraft and bank loan, trade and other payables 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 approximate its carrying value.

The Company's financial assets and liabilities recorded at fair value have been classified according to the following hierarchy based on the amount of observable inputs used to value the instruments.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequent and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on imputes, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place.
- Level 3 – Valuations in this level are those with inputs for the assets or liabilities that are not based on observable market data.

The Company's cash has been assessed on the fair value hierarchy described above; cash is classified as Level 1.

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

#### (a) Interest Rate Risk

The Company has a Credit Facility with a Canadian chartered bank which, when utilized by the Company, provides loans that are subject to floating market rates. The Company had a balance outstanding for this Credit Facility at December 31, 2010 of \$511,348 and nil at December 31, 2009. Future cash flow requirements could require the Company to utilize its line of credit to finance working capital for periods of time and during these time periods it would be exposed to interest rate risk. The Company's long term debt have fixed interest rates and therefore do not have any additional interest rate risk.

#### (b) 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 December 31, 2010, approximately 92% of trade receivables were attributable to 6 customers (at December 31, 2009, approximately 95% of trade receivables were attributable to 3 customers).

The aging of the trade receivables that were past due but not impaired as of December 31, 2010 and December 31, 2009 is shown in the table on the following page:

	<u>Trade Receivables Aging</u>		<u>Holdback Amounts Billed</u>	
	2010	2009	2010	2009
1-30 days	\$ 114,825	\$ 91,815	\$ 13,492	\$ -
30-60 days	301,776	79,452	51,573	76,709
61-90 days	311,993	5,677	48,070	5,677
Greater than 90 days	-	91	-	91
	<u>\$ 728,594</u>	<u>\$ 177,035</u>	<u>\$ 113,135</u>	<u>\$ 82,477</u>

In addition the Company had holdbacks recorded of \$27,891 as at December 31, 2010 (\$nil as at December 31, 2009).

In determining the recoverable amount of a trade or other receivable, the company performs a risk analysis considering the type and age of the outstanding receivable and the credit worthiness of the counterparties.

### (c) Liquidity Risk

Liquidity risk management involves maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit lines. Due to the nature of the business, the Company aims to maintain flexibility in funding by keeping committed credit lines available and limiting the investment of available cash to short term risk free interest bearing deposits. At December 31, 2010, the Company had access to \$1,000,000 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 December 31, 2010 was \$693,000 (December 31, 2009 \$318,000).

In 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 historical 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.

### P. Disclosure of Outstanding Share Data

As at December 31, 2010 and March 23, 2011, 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, 2010</u>	<u>Outstanding as at March 23, 2011</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 2,687,500 Common Shares at an exercise price at between \$0.10-\$0.35	Stock options to acquire 2,687,500 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 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.

In 2010, 25,000 stock options with an exercise price of \$0.35 were forfeited and 108,325 stock options with an exercise price of \$0.30 expired.

## **Q. Outlook**

2010 was a difficult year and has reduced the Company's financial capabilities from a working capital, borrowing and bonding perspective. However, 2011 is starting out strong and the Company anticipates it will be in a better position financially by the end of the second quarter with continuing improvement throughout the balance of the year.

As of this date the Company has contracted sales for 2011 in the amount of \$3.9 million, which includes \$1.6 million of sales contracted in 2010 but shifted to 2011 due to third party construction delays. These 2011 contracted sales are almost 100% infrastructure related and are principally for projects in Ontario and the United States, but include projects in Alberta and British Columbia.

The Ontario contracts include two tunnel projects in the Mississauga area with a sales value of approximately \$1.1 million and are the result of developing a strong business relationship with one of the more significant tunnel contractors in Southern Ontario. A successful project was completed with that contractor in 2010. These projects are both scheduled to be completed in the spring of 2011. The Company continues to bid other projects with this tunnel contractor.

The contracts in the United States include two in the Chicago area with a total value of USD \$2.0 million. One significant contract in Chicago in the amount of USD \$1.48 million is the Company's first project in the United States and has already commenced with the placement of cellular concrete beginning in February 2011. It is a five month project with the first phase of USD \$0.9 million expected to be completed in May and the last phase in late summer of this year. The other project is scheduled for the spring and early summer.

The signing of these contracts bodes well for the Company and reflects the focus of the Company in developing its infrastructure markets in Canada and the United States, while the Western Canadian oil and gas construction market was still recovering from the effects of the economic downturn. The Company has historically never had a backlog of sales this early in the year in excess of \$0.5 million; this compares to the backlog of sales of \$3.9 million already in place for 2011. This sales backlog combined with work in the design stage of many other projects in both the Canadian and United States infrastructure markets and the oil and gas markets leads management to expect reasonable growth in sales in 2011. In addition, there is the added potential of a return of the oil sands market by the end of the year. Whether CEMATRIX will participate in these oil sand 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.

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

**Form 51-102F1 - Management's Discussion & Analysis  
For the Year Ending December 31, 2010**

**Appendix A – Forward Looking Statements**

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

**Page 5 – Annual overview and highlights**

**In 2010, infrastructure sales accounted for 64% of the Company's total sales and this percentage is expected to continue to increase in 2011.**

*The foregoing statement is forward looking and is based on contracts in place for 2011 and bids which the Company has placed or will be placing in the coming year. The principal risk is that infrastructure sales do not grow as expected or that project work in the oil and gas construction market is stronger.*

**Page 5 – Annual overview and highlights**

**The Company will be filing additional material requested by the MTO in April 2011 and, based on discussions with MTO officials, is reasonably optimistic of receiving product approval by mid-2011.**

*The foregoing statement is forward looking and is based on managements' assessment after discussions with MTO officials. The principal risks include: the preparation of the required material takes longer than management expects, the information once filed results in additional requests for information and the final approval by the MTO takes longer than expected by management.*

**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 will assist in the development of these markets.**

*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 the second 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. 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 25 – Outlook**

**However, 2011 is starting out strong and the Company anticipates it will be in a better position financially by the end of the second quarter with continuing improvement throughout the balance of the year.**

*The foregoing statements contain forward-looking statements which are based on sales and cash flow forecasts prepared for 2011; sales forecasts include work which is under contract for 2011, 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 2011 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 2011 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; and a delay in getting product acceptance in new markets such that an increase in infrastructure sales takes longer than anticipated resulting in reduced sales.*

Page 26 – Outlook

**This sales backlog combined with work in the design stage of many other projects in both the Canadian and United States infrastructure markets and the oil and gas markets leads management to expect reasonable growth in sales in 2011. In addition, there is the added potential of a return of the oil sands market by the end of the year.**

*The foregoing statements contain forward-looking statements which are based on sales and cash flow forecasts prepared for 2011; sales forecasts include work which is under contract for 2011, 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 2011 based on the above sales forecast and the forecast of the Company's cost structure; The potential recovery of the oil sands is based on the increase in bid requests received by the Company in this market. There are a number of risks that could affect those assumptions which include: contracted work is delayed; the failure of 2011 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; and a delay in getting product acceptance in new markets such that an increase in infrastructure sales takes longer than anticipated resulting in reduced sales.*