CEMATRIX CORPORATION
Consolidated Financial Statements
December 31, 2010

To the Shareholders:
CEMATRIX CORPORATION

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

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

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

Meyers Norris Penny LLP, the independent external auditors of the Company, are appointed by the shareholders to examine the financial statements and report directly to them; their report follows. The external auditors have full and free access to the Audit Committee and management.

March 23, 2011

Signed "Bruce McNaught" Chief Financial Officer
Bruce McNaught, CA

To the Shareholders of CEMATRIX CORPORATION:

We have audited the accompanying consolidated financial statements of CEMATRIX CORORATION and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of loss and comprehensive loss, shareholders equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of CEMATRIX CORPORATION and its subsidiaries as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter – Going Concern and Financing
We draw attention to Note 2 in the financial statements which indicates that CEMATRIX CORPORATION has a net loss and comprehensive loss for the period of $745,286 (2009 – $1,309,804), accumulated losses of $6,432,521 (2009 - $5,687,235) and negative cash flows from operations, before the net change in non-cash working capital items, of $418,049 (2009 - $1,020,956). These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Corporation's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Meyers Norris Penny LLP

March 23, 2010
Calgary Alberta

Chartered Accountants

CEMATRIX CORPORATION
Consolidated Balance Sheets
As at December 31
Canadian Dollars

		2010		2009
ASSETS				
Current Assets				
Cash *(note 4)*	**$**	**3,648**	$	110,310
Restricted cash *(note 13)*		**23,047**		-
Trade and other receivables *(note 5)*		**764,736**		179,347
Inventory *(note 6)*		**394,472**		440,719
Prepaid expenses and deposits *(note 7)*		**65,376**		59,596
Total Current Assets		**1,251,279**		789,972
Non Current Assets				
Property and equipment *(note 8)*		**1,255,873**		1,371,109
Intangibles *(note 9)*		**465,116**		465,116
Total Non Current Assets		**1,720,989**		1,836,225
Total Assets	**$**	**2,972,268**	$	2,626,197
LIABILITIES				
Current Liabilities				
Bank overdraft *(note 10)*	**$**	**113,363**	$	-
Bank operating loan *(note 11)*		**511,348**		-
Trade and other payables *(note 12)*		**260,420**		231,319
Current portion of long term debt *(note 13)*		**249,030**		98,880
Current portion of capital lease obligations *(note 14)*		**40,610**		40,231
Total Current Liabilities		**1,174,771**		370,430
Non Current Liabilities				
Long term debt *(note 13)*		**266,002**		123,561
Capital lease obligations *(note 14)*		**47,489**		63,247
Total Non Current Liabilities		**313,491**		186,808
Total Liabilities		**1,488,262**		557,238
Going concern assumption *(note 2)*				
Commitments *(note 30)*				
Subsequent event *(note 32)*				
SHAREHOLDERS' EQUITY				
Share capital *(note 15)*		**7,160,015**		7,160,015
Share purchase warrants *(notes 13 and 16)*		**88,877**		-
Contributed surplus *(note 17)*		**667,635**		596,179
Deficit		**(6,432,521)**		(5,687,235)
Total Shareholders' Equity		**1,484,006**		2,068,959
Total Shareholders' Equity and Liabilities	**$**	**2,972,268**	$	2,626,197

Approved on behalf of the Board

Signed "Kirby Cox" **Director**

Signed "Jeffrey Kendrick" **Director**

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

CEMATRIX CORPORATION
Consolidated Statements of Loss and Comprehensive Loss
For the years ending at December 31
Canadian Dollars

		2010		2009
Revenue *(note 18)*	**$**	**3,257,197**	$	2,627,847
Cost of sales *(note 19)*		**2,312,306**		2,126,577
Gross margin		**944,891**		501,270
Operating expenses				
General and administrative		**609,211**		644,852
Sales, marketing and engineering		**667,251**		872,147
Stock-based compensation *(note 20)*		**71,456**		32,160
Depreciation and amortization *(note 21)*		**169,844**		228,970
Total operating expenses		**1,517,762**		1,778,129
Operating loss		**(572,871)**		(1,276,859)
Finance costs *(note 22)*		**(172,187)**		(26,420)
Non-operating income (expenses) *(note 23)*		**(228)**		(6,525)
Net loss before income taxes		**(745,286)**		(1,309,804)
Income taxes *(note 24)*		**-**		-
Net loss and comprehensive loss for the year	**$**	**(745,286)**	$	(1,309,804)
Loss per share *(note 25)*				
Basic	**$**	**(0.02)**	$	(0.04)
Fully Diluted		**(0.02)**		(0.04)
Weighted average number of common shares *(note 25)*				
Basic		**33,465,994**		33,465,994
Fully Diluted		**33,465,994**		33,465,994

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

CEMATRIX CORPORATION
Consolidated Statements of Shareholders' Equity
For the years ending December 31
Canadian Dollars

	Share Capital	Share Purchase Warrants	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance at December 31, 2008	$ 7,160,015	$ -	$ 564,019	$ (4,377,431)	$ 3,346,603
Stock based compensation	-	-	32,160	-	32,160
Loss for the year				(1,309,804)	(1,309,804)
Balance at December 31, 2009	7,160,015	-	596,179	(5,687,235)	2,068,959
Issue of share purchase warrants - net of issuance costs *(notes 13 and16)*	-	88,877	-	-	88,877
Stock-based compensation *(note 20)*	-	-	71,456	-	71,456
Net loss for the year	-	-	-	(745,286)	(745,286)
Balance at December 31 , 2010	**$ 7,160,015**	**$ 88,877**	**$ 667,635**	**$ (6,432,521)**	**$ 1,484,006**

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

CEMATRIX CORPORATION
Consolidated Statements of Cash Flows
For the years ending December 31
Canadian Dollars

		2010		2009
Cash provided by (used in):				
Operating activities				
Net loss for the year	**$**	**(745,286)**	$	(1,309,804)
Add (deduct) non-cash items				
Depreciation and amortization *(note 21)*		**169,844**		228,970
Stock-based compensation expense *(note 20)*		**71,456**		32,160
Accretion expense on subordinated secured debentures *(notes 13 and 22)*		**85,937**		-
Write down of technology license *(note 23)*		**-**		27,718
		(418,049)		(1,020,956)
Net change in non-cash working capital items *(note 26)*		**(515,821)**		860,760
		(933,870)		(160,196)
Investing activities				
Purchase of property and equipment *(note 8)*		**(24,404)**		(245,112)
Financing activities				
Proceeds from bank operating loan *(note 11)*		**511,348**		-
Proceeds from AFSC loan *(note 13)*		**-**		200,000
Proceeds from subordinated secured debentures (net of issuance costs) *(note 13)*		**444,384**		-
Repayments of AFSC loans *(note 13)*		**(99,339)**		(98,968)
Repayments of subordinated secured debentures (*note 13)*		**(49,514)**		-
Restricted cash *(note 13)*		**(23,047)**		-
Repayment of capital lease obligations *(note 14)*		**(45,583)**		(67,216)
		738,249		33,816
Decrease in cash		**(220,025)**		(371,492)
Cash, beginning of year		**110,310**		481,802
Cash, end of year	**$**	**(109,715)**	$	110,310
Cash				
Cash *(note 4)*	**$**	**3,648**	$	110,310
Bank overdraft *(note 10)*		**(113,363)**		-
Cash, end of year	**$**	**(109,715)**	$	110,310
Finance costs paid during the year	**$**	**75,279**	$	25,938

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

1. Corporate information

CEMATRIX Corporation ("CEMATRIX" or the "Company") is a limited company incorporated in the province of Alberta, Canada whose common shares are publicly traded on the TSX venture exchange under the symbol "cvx.v". It is domiciled in Canada with its registered office at 5440 - 53 rd Street S. E., Calgary, Alberta, Canada.

Through its wholly-owned subsidiary, CEMATRIX (Canada) Inc., the Company is a manufacturer and supplier of cellular concrete products with applications in a variety of markets. The current market focus is in the oil and gas sector in Western Canada and infrastructure construction in Western Canada and Ontario Canada and in the United States.

These consolidated financial statements are presented in Canadian dollars because that is the currency of the primary economic environment in which the Company operates.

2. 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.

3. Significant accounting policies

The consolidated financial statements of CEMATRIX have been prepared in accordance with Canadian generally accepted accounting principles as issued by the Canadian Institute of Chartered Accountants ("CICA") and include the following significant accounting policies.

Basis of consolidation
The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, CEMATRIX (Canada) Inc. and its subsidiaries: CEMATRIX (Calgary) Ltd. (100% owned) and CEMATRIX (USA) Inc (99.99% owned). The financial statements of the subsidiaries are prepared for the same period as the parent company, using consistent accounting policies. The Company has consolidated the assets, liabilities, revenues and expenses of its subsidiaries after the elimination of inter-company transactions and balances.

Cash
Cash is comprised of cash on hand and short term interest bearing deposits with an original maturity of three months or less, if applicable.

Inventory
Inventory is valued at the lower of cost and net realizable value. Cost is determined by the weighted average method**.** Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Inventory consists mainly of raw materials used in the production of the Company's product, cellular concrete. It also includes some spare parts and marketing materials.

3. Significant accounting policies (continued)

Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and any recognized impairment loss. The cost of self-constructed assets includes materials, direct labour and an appropriate proportion of production overheads. Depreciation is charged so as to write off the cost or valuation of assets, other than land, over their estimated useful lives using the following methods and rates.

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

Depreciation commences in the month the asset becomes available for use.

Leases

Capital leases, which transfer to the Company substantially all of the benefits and risks incidental to ownership of the leased item, are capitalized as part of property and equipment at the commencement of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. At the inception of a capital lease a payment obligation is also recorded at the same value. Payments under capital leases are apportioned between the finance charge and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the income statement.

Assets under a capital lease are depreciated in accordance with the property and equipment accounting policy. However, if there is no reasonable certainty that the Company will obtain ownership at the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an expense in the statement of loss on a straight line basis over the term of the lease.

Intangibles

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets are not capitalized and the expenditure is reflected in the statement of loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with a finite life are amortized over the estimated useful economic life and assessed for impairment annually or more frequently whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the income statement.

3. Significant accounting policies (continued)

Intangible assets with indefinite useful lives, such as trademarks and technology, are not amortized, but are tested for impairment annually. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable, if not, the change in useful life from indefinite to finite is made on a prospective basis. The Company assesses impairment based on comparing the carrying value to the estimated discounted future cash flows from the intangible assets and any impairment is charged to current year income (loss).

Patents have been granted for a period of 10 years by the relevant government agency and were fully amortized as at December 31, 2009.

Licenses for trademarks are granted for periods ranging from 7 to 10 years depending on the particular item. These licenses provide the option for renewal based on whether the Company meets these conditions on the specific license and may be renewed at little or no cost to the Company. As a result those licenses are assessed as having an indefinite useful life. The technology, which relates to processes for producing cellular concrete and the foaming agent used in the production of cellular concrete were acquired. The Company has no legal, regulatory, contractual, competitive, economic or other factors to limit the useful life of these technologies. As a result these technologies are assessed as having an indefinite useful life.

Impairment of long-lived assets
Long-lived assets consist of property and equipment and intangibles with finite useful lives. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

The Company performs impairment testing on long-lived assets held for use whenever events or changes in circumstances indicate that the carrying value of an asset or group of assets may not be recoverable. An impairment is recognized when the undiscounted future cash flows from its use and disposal are less than the asset's carrying value. If there is an impairment, the impairment amount is measured as the amount by which the carrying value of the asset exceeds its fair value, determined using the discounted cash flows when quoted market prices are not available. Any impairment is included in earnings for the year.

Revenue recognition
The Company's revenue is primarily generated from the production and 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 evaluation of collectability of amounts invoiced is assessed and any contractual obligations related to the placement of cellular concrete are met before recognizing revenue. The Company also derives revenue from the sale of foaming agent, which is recognized when the product leaves the Company's facilities and revenue from the short term rental of its equipment which is recognized evenly over the term of the particular equipment lease.

Stock-based compensation
Stock options granted are accounted for in accordance with the fair value based method. The associated compensation expense is charged to income (loss) with a corresponding increase in contributed surplus, over the vesting period of the grant. The fair value of each stock option granted is estimated on the date of grant using the Black Scholes option pricing model. As the options are exercised, consideration paid, together with the amount previously recognized in contributed surplus, is recorded as an increase in share capital. In the event that vested options expire, previously recognized compensation expense associated with such stock options is not reversed. In the event that unvested options are cancelled, previously recognized compensation expense associated with such stock options is reversed.

3. Significant accounting policies (continued)

Earnings per common share
Basic earnings per common share are calculated based on the average number of common shares outstanding during the year. Diluted earnings per share are calculated using the treasury stock method, which assumes that the cash that would be received on the exercise of options and warrants is applied to purchase shares at the average price during the period and that the difference between the shares issued upon their exercise and the number of shares obtainable under this computation, on a weighted average basis, is added to the number of shares outstanding. Anti-dilutive amounts are not considered in computing diluted earnings per share.

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

Investment tax credits
The Company is entitled to refundable investment tax credits on certain research and product development costs incurred. There were no such costs incurred in 2010 or 2009. These credits are recognized against the related costs when there is reasonable assurance of their recovery.

Foreign currency translation
The Company's consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. This is the currency of the primary economic environment in which the Company operates.

Foreign currency denominated assets and liabilities are translated at the exchange rate prevailing at the balance sheet date for monetary items. Non-monetary assets and liabilities are translated at the rates prevailing at the transaction date. Revenues and expenses are translated using exchange rates prevailing at the dates of the transaction. Any exchange gain or loss that arises on translation is included in the consolidated statement of income (loss) for the period.

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

Accounts receivable 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 is required to forecast future revenues and the cash collection of this future revenue.

3. Significant accounting policies (continued)

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.

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 in net income and other comprehensive income, respectively. All other financial instruments are initially accounted for at fair value and subsequently measured at amortized cost using the effective interest rate method with foreign exchange gain and losses recognized immediately in net income.

The Company has no derivatives or embedded derivatives in other financial instruments as of December 31, 2010 or December 31, 2009.

Transaction costs
The Company has a choice of recognizing transaction costs in net income when incurred versus adding transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability to the financial instrument's carrying cost. This guidance allows companies to choose different accounting policies for transaction costs of financial instruments that are not similar. It is the Company's policy to add transaction costs that are directly attributable to the acquisition or issuance of a financial asset and or liability to its fair value. These transaction costs are taken into income using the effective interest rate method over the life of the related debt.

Comprehensive income
The components of other comprehensive income include unrealized gains and losses on financial assets classified as available-for-sale and the effective portion of cash flow hedges, if any. There were no such components to be recognized in comprehensive income upon transition or for the years ended December 31, 2010 and December 31, 2009. As the Company has no items of other comprehensive income or loss, the net earnings or loss for the periods are equivalent to comprehensive income.

Changes in accounting policies and disclosures
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.

3. Significant accounting policies (continued)

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, including the preparation of required comparative information. The impact of IFRS on the Company's Consolidated Financial Statements is not reasonably determinable at this time.

4. Cash

Cash is comprised of cash on hand.

5. Trade and other receivables

Trade and other receivables consist of the following components as at December 31:

		2010		2009
Trade receivables	**$**	**728,594**	$	177,035
Holdbacks not yet billable		**27,891**		-
Other receivables		**8,251**		2,312
	$	**764,736**	$	179,347

Trade receivables are non-interest bearing and are generally on 30 day terms 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 and the amount of the holdback amounts billed and included in trade receivables were as follows as at December 31, 2010 and 2009:

	Trade Receivables Aging				**Holdbacks Billed**			
		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
	$	**728,594**	$	177,035	**$**	**113,135**	$	82,477

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.

6. Inventory

Inventory consists of the following components as at December 31:

		2010		2009
Raw materials (principally foaming agent)	**$**	**377,086**	$	428,094
Spare parts		**15,561**		12,358
Marketing material		**1,825**		267
	$	**394,472**	$	440,719

Inventory expensed as part of cost of sales was $59,326 and $93,250, respectively, for the years ended December 31, 2010 and 2009.

7. Prepaid expenses and deposits

Prepaid expenses and deposits consist of the following components as at December 31:

		2010		2009
Prepaid insurance	**$**	**8,284**	$	10,420
Rental deposits		**44,016**		43,492
Other		**13,076**		5,684
	$	**65,376**	$	59,596

8. Property and equipment

Property and equipment consist of the following components as at December 31:

		Cost		Accumulated Amortization		2010 Net Book Value
Owned						
Automobiles	**$**	**60,569**	**$**	**53,149**	**$**	**7,420**
Leasehold improvements		**20,232**		**5,495**		**14,737**
Computer equipment and software		**133,592**		**115,502**		**18,090**
Equipment and cellular material processors		**1,284,702**		**888,778**		**395,924**
Equipment – dry mix processors		**811,077**		**114,298**		**696,779**
Furniture and fixtures		**26,873**		**21,532**		**5,341**
		2,337,045		**1,198,754**		**1,138,291**
Leased						
Computer equipment and software		**721**		**421**		**300**
Equipment		**187,430**		**70,148**		**117,282**
		188,151		**70,569**		**117,582**
	$	**2,525,196**	**$**	**1,269,323**	**$**	**1,255,873**

8. Property and equipment (continued)

		Cost		Accumulated Amortization		2009 Net Book Value
Owned						
Automobiles	$	60,569	$	49,969	$	10,600
Leasehold improvements		17,773		3,734		14,039
Computer equipment and software		114,407		97,732		16,675
Equipment and cellular material processors		1,266,596		790,993		475,603
Equipment – dry mix processors		808,643		83,473		725,170
Furniture and fixtures		26,873		20,196		6,677
		2,294,861		1,046,097		1,248,764
Leased						
Computer equipment and software		18,502		10,668		7,834
Equipment		157,225		42,714		114,511
		175,727		53,382		122,345
	$	2,470,588	$	1,099,479	$	1,371,109

The movement in the carrying amounts for each class of property and equipment for the years ended December 31, 2010 and 2009 is outlined below:

		2010		2009
Automobiles				
Carrying amount at the beginning of the year	**$**	**10,600**	$	13,417
Additions		**-**		1,464
Depreciation		**(3,180)**		(4,281)
Carrying amount at the end of the year	**$**	**7,420**	$	10,600
Leasehold improvements				
Carrying amount at the beginning of the year	**$**	**14,039**	$	15,757
Additions		**2,459**		-
Depreciation		**(1,761)**		(1,718)
Carrying amount at the end of the year	**$**	**14,737**	$	14,039
Computer equipment and software				
Carrying amount at the beginning of the year	**$**	**16,675**	$	21,504
Additions		**1,404**		-
Reclassification		**5,801**		1,927
Depreciation		**(5,790)**		(6,756)
Carrying amount at the end of the year	**$**	**18,090**	$	16,675
Equipment and cellular material processors				
Carrying amount at the beginning of the year	**$**	**475,603**	$	307,133
Additions		**18,107**		228,448
Reclassification		**-**		30,365
Depreciation		**(97,786)**		(90,343)
Carrying amount at the end of the year	**$**	**395,924**	$	475,603

8. Property and equipment (continued)

		2010		2009
Equipment – dry mix processors				
Carrying amount at the beginning of the year	**$**	**725,170**	$	723,072
Additions		**2,434**		15,200
Depreciation		**(30,825)**		(13,102)
Carrying amount at the end of the year	**$**	**696,779**	$	725,170
Furniture and fixtures				
Carrying amount at the beginning of the year	**$**	**6,677**	$	8,346
Depreciation		**(1,336)**		(1,669)
Carrying amount at the end of the year	**$**	**5,341**	$	6,677
Summary owned				
Carrying amount at the beginning of the year	**$**	**1,248,764**	$	1,089,229
Additions		**24,404**		245,112
Reclassification		**5,801**		32,292
Depreciation		**(140,678)**		(117,869)
Carrying amount at the end of the year	**$**	**1,138,291**	$	1,248,764
Computer equipment and software				
Carrying amount at the beginning of the year	**$**	**7,834**	$	13,509
Reclassification		**(5,801)**		(1,927)
Depreciation		**(1,733)**		(3,748)
Carrying amount at the end of the year	**$**	**300**	$	7,834
Equipment				
Carrying amount at the beginning of the year	**$**	**114,511**	$	164,381
Additions		**30,204**		10,800
Reclassification		**-**		(30,365)
Depreciation		**(27,433)**		(30,305)
Carrying amount at the end of the year	**$**	**117,282**	$	114,511
Summary leased				
Carrying amount at the beginning of the year	**$**	**122,345**	$	177,890
Additions		**30,204**		10,800
Reclassification		**(5,801)**		(32,292)
Depreciation		**(29,166)**		(34,053)
Carrying amount at the end of the year	**$**	**117,582**	$	122,345

The loan with the Agriculture Financial Services Corporation is secured by equipment and General Security Agreement (Note 13).

9. Intangibles

The components of intangibles at December 31 are outlined below:

		2010		2009
Trademarks	**$**	**9,005**	$	9,005
Technology		**456,111**		456,111
	$	**465,116**	$	465,116

During 2009, the Company wrote off a technology license that no longer had value (note 23).

10. Bank overdraft

		2010		2009
Bank overdraft	**$**	**113,363**	$	-

11. Bank operating loan

		2010		2009
Bank operating loan	**$**	**511,348**	$	-

The Company has a revolving demand credit facility (``Credit Facility`) with a Canadian chartered bank which, when utilized by the Company, provides loans to finance working capital for periods of time. Under the Credit 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. Based on these restrictions the actual credit facility availability at December 31, 2010 was $693,000 (December 31, 2009 $318,000).

In the second quarter of 2010, the Company`s Credit Facility with the 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 and inventories are in place to support the higher loan level.

Interest on the Credit Facility is at prime plus 2.25%. The security provided includes a General Security Agreement over all of the assets of the Company. Under the facility, the Company is required to maintain a debt to tangible net worth ratio of less than 1.75:1. The Company is in compliance with the terms of the covenants.

12. Trade and other payables

Accounts payables and accrued liabilities consist of the following components as at December 31:

		2010		2009
Trade payables	**$**	**102,750**	$	88,148
Accruals		**132,274**		118,744
Payroll remittance and goods & services tax		**25,396**		24,427
	$	**260,420**	$	231,319

13. Long term debt

Long term debt consists of the following components as at December 31:

	Maturity	Interest rate		2010		2009
Agricultural Financial Services Corporation – loan 1	Dec. 2010	6.54%	**$**	**-**	$	62,633
Agricultural Financial Services Corporation – loan 2	Feb. 2014	5.82%		**123,102**		159,808
Subordinated secured debentures	Jan. 2013	12.00%		**391,930**		-
				515,032		222,441
Less current portion				**(249,030)**		(98,880)
			$	**266,002**	$	123,561

AFSC loans

Loan 1

During 2005, the Company borrowed $300,000 from the Agricultural Financial Services Corporation ("AFSC") ("AFSC Loan 1") to be used to complete the acquisition of equipment with an original cost of $571,500. This loan was repaid in December 2010.

Loan 2

During 2009, the Company borrowed $200,000 from the AFSC ("AFSC Loan 2") to be used for the acquisition and construction of equipment at a cost of $200,000. The original term included monthly principal and interest payments of $7,565 commencing July 1, 2009 with monthly payments from July to December each year. In November 2010 the term was modified, at the request of the AFSC, to comply with their internal administration systems, such that payments of $22,626 (principal plus interest) will be made twice a year in August and January commencing in August 2011 which moves the maturity to February 2014.

The loan is secured by equipment and a General Security Agreement. The net book value of the equipment used as security at December 31, 2010 is $1,138,291 (December 31, 2009 - $1,248,764).

Repayments of the AFSC loans for the year ended December 31, 2010 and 2009 were $99,339, and $99,968 respectively. Principal repayments for the years following the year ended December 31, 2010 are as follows: 2011 - $19,030; 2012 - $39,701; 2013 - $42,070; 2014 - $22,301.

Finance costs during the years ending December 31, 2010 and 2009 include interest on the AFSC loans in the amount of $11,379 and $13,904 respectively.

Subordinated secured debentures

On January 22, 2010, the Company completed a private placement (the "Private Placement") of 100 units (individually, a "Unit") to certain subscribers at a subscription price of $5,000 per Unit, for aggregate gross proceeds of $500,000. Each Unit was comprised of a $5,000 subordinated secured debenture (individually, a "Debenture") and 10,000 share purchase warrants (individually, a "Warrant"). Each whole Warrant entitles the holder to purchase one common share of the Company.

13. Long term debt (continued)

Each Debenture will mature 3 years after the issuance thereof, subject to early repayment. Three percent of the cash revenues received by the Company and its subsidiaries during each three month period (a "Quarter") ending after the closing date are to be paid by the Company against the principal amounts owing under the Debentures. For each Debenture held, the holder thereof will be entitled to a quarterly distribution of $150 so long as any of the principal amounts owing under the Debentures are outstanding within thirty days of a Quarter end. Notwithstanding that the principal amounts owing under the Debentures are paid back prior to the expiry of the three year term, and subject to compliance with all applicable laws, each holder of a Debenture will be entitled to a minimum of six quarterly distributions and: (i) should re-payment of the principal amount owing under the Debentures occur between months 19 and 24 months after the issuance of the Debentures, a holder of Debentures shall be entitled to one additional distribution of $150 above and beyond their quarterly distributions for each Debenture held; or (ii) should re-payment of the principal amount owing under the Debentures occur between months 25 and 36 after the issuance of the Debentures, a holder of Debentures shall be entitled to two additional distributions of $150 above and beyond their quarterly distributions for each Debenture held.

Each Warrant issued pursuant to the Private Placement shall be exercisable for a term of three years at an exercise price of $0.15. If the average closing trading price of the Common Shares on the TSX Venture Exchange Inc. or other recognized exchange is equal to or greater than $0.30 for a period of 60 consecutive days, the Company shall have an option at its sole discretion to provide a written notice to accelerate the expiry (the "Acceleration Notice") advising the Warrant holders that they shall have 21 days following the date of the Acceleration Notice to exercise their Warrants and any unexercised Warrants after the expiry of the 21st day following the Acceleration Notice shall expire with no further rights and privileges attached thereto.

For accounting purposes, the Private Placement has a liability and an equity component, which are separately presented in the consolidated balance sheet. The $500,000 face value of the Private Placement has been allocated to the liability and equity components based on the fair value of the equity component with the difference assigned to debt. The fair value of the Warrants was measured using the Black-Scholes option pricing model, assuming a risk free interest rate of 1.7%, no dividend, and a volatility factor of 364% and such fair value was credited to Warrants within Shareholders' Equity. As a result, the Company allocated $400,000 to debt and $100,000 to equity. The transaction costs relative to the Private Placement were $55,616 and these have been charged to both the value of the Debentures and the Warrants based on their respective fair value determinations.

The fair value of the Debentures, as determined above, and 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 (see note 22) as "accretion expense on subordinated secured debentures". This expense has no current period impact on the Company's cash position.

Repayments of the Debentures are to be made quarterly from the date of issue based on 3% of revenues collected related to revenues earned subsequent to the closing date. Repayments in the year ended December 31, 2010 were $49,514. At December 31, 2010, the 3% of related revenue collected and held for repayment amounted to $23,047 and this has been reported as restricted cash on the consolidated balance sheet. At December 31, 2010 the Company has estimated the amount of the Debentures that will be repaid within twelve months to be $230,000. In order to estimate this amount, management was required to forecast future revenues and cash collections of this future revenue. Management believes that the estimates are reasonable; however, actual results could differ from these estimates.

Finance costs related to the Debentures during the year ended December 31, 2010 amounted to $142,437. This included a non-cash accretion expense of $85,937.

14. Capital lease obligations

Capital leases, which relate to the purchase of equipment, bear interest at 5.75% to 15.75%, are repayable in blended monthly payments and mature from February 2011 to June 2013. The annual future commitments under the leases are as follows:

2011	**$**	46,614
2012		45,681
2013		4,600
		96,895
Less imputed interest		8,796
		88,099
Current portion		**40,610**
	$	**47,489**

Repayment of capital lease obligations for the year ended December 31, 2010 was $45,583 (December 31, 2009 - $67,216).

New capital lease obligations in the year ended December 31, 2010 were $30,204 (December 31, 2009 - $10,800).

Finance costs for the year ended December 31, 2010 includes interest on capital lease obligations in the amount of $9,033 (December 31, 2009 - $11,820).

15. Share capital

(a) Authorized

Unlimited number of no par value voting common shares
Preferred shares – to be issued in series as authorized by the directors

b) Issued

	Number Of Shares	**2010 $ Amount**	Number Of Shares	2009 $ Amount
Common shares, end of year	**33,465,994**	**$7,160,015**	33,465,994	$7,160,015

15. Share capital (continued)

(c) Common shares

During the years ended December 31, 2010 and 2009 no common shares were issued by the Company.

(d) Share acquisition loans

Share acquisition loans of $113,125 were issued to management in previous years to purchase shares of the Company. The loans bear no interest. As of December 31, 2007 the share acquisition loans were re-issued as demand loans. The loans have been included as a reduction of share capital since their issuance in 1999 and 2000.

16. Share purchase warrants

The following table summarizes the changes in Warrants during the year ended December 31, 2010:

	Number Of Warrants	**2010 $ Amount**	Number Of Warrants	2009 $ Amount
Share purchase warrants, beginning of period	**-**	**$ -**	-	$ -
Issue of share purchase warrants(1)	**1,000,000**	**88,877**	-	-
Share purchase warrants end of period	**1,000,000**	**$ 88,877**	-	$ -

(1) The fair value determined per Note 13 of $100,000 less the allocated transaction costs of $11,123.

The following table summarizes the Warrants to acquire common shares of the Company at December 31, 2010:

Issue Date	Number Warrants	Exercise Price $	Weighted average remaining life (years)	Expiry Date
January 22, 2010	1,000,000	0.15	2.06	January 22, 2013

17. Contributed surplus

The following table summarizes the changes in contributed surplus during the year ended December 31, 2010 and the year ended December 31, 2009:

	2010	2009
Balance, beginning of year	**$ 596,179**	$ 564,019
Stock-based compensation expense (note 20)	**71,456**	32,160
Balance, end of year	**$ 667,635**	$ 596,179

18. Revenue

Revenue consists of the following components for the years ending December 31, 2010 and 2009:

		2010		2009
Manufacture of cellular concrete	**$**	**3,250,567**	$	2,539,119
Equipment rental		**-**		54,627
Other		**6,630**		34,101
	$	**3,257,197**	$	2,627,847

19. Cost of sales

Cost of sales consists of the following components for the years ending December 31, 2010 and 2009

		2010		2009
Manufacture of cellular concrete				
Materials	**$**	**1,347,952**	$	1,049,860
Direct labour		**355,685**		398,144
Variable expenses		**319,449**		267,354
Fixed overhead		**286,520**		378,346
		2,309,606		2,093,704
Equipment rental		**-**		4,263
Other		**2,700**		28,610
	$	**2,312,306**	$	2,126,577

20. Stock-based compensation

The Company has an option plan for the issue of up to 10% of the issued and outstanding common shares of the Company. All options that are outstanding will expire upon maturity, or earlier, if the optionee ceases to be a director, officer, employee or contractor or there is a merger, amalgamation or change in control of the Company. The purpose of the option plan is to reward and retain directors, management and contractors important to the continued operation and growth of the Company.

On February 5, 2010 the Company granted stock options to the Howard Group to enable it to acquire 300,000 common shares of the Company at an exercise price of $0.12. These stock options vest as to one quarter every three months from the date of grant and expire three years from the date of grant. The Howard Group have been contracted to provide an investor and financial relations program commencing July 1, 2010, or at such other date as agreed to by both parties, until July 31, 2011. No investor and financial relations program was undertaken in the year ended December 31, 2010.

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 vest as to one third immediately and one third on the first and second anniversary date of the grant and expire in five years.

At December 31, 2010 a total of 2,687,500 stock options to purchase common shares (December 31, 2009: 2,370,825) were issued and are outstanding to directors, consultants and managers of the Company. At December 31, 2010, the Company had 659,099 shares reserved for the issuance of stock options (December 31, 2009 - 975,774).

20. Stock-based compensation (continued)

All options issued prior to 2008 vested at the date of grant or have vested. Options issued to employees and directors subsequent to 2008 vest as to one third immediately on grant and one third on each of next two anniversary dates. The options to the Howard Group vest as described previously.

The following table summarizes the options to acquire common shares outstanding as at December 31, 2010:

Grant Date	Number Options	Exercise Price $	Weighted average remaining life (years)	Expiry Date
April 11, 2006	1,150,000	0.30	0.28	April 11, 2011
June 1, 2007	100,000	0.30	1.42	June 1, 2012
July 27, 2007	87,500	0.35	1.57	July 27, 2012
August 13, 2008	600,000	0.30	2.62	August 13, 2013
December 1, 2008	300,000	0.10	2.92	December 1, 2013
February 5, 2010	300,000	0.12	2.10	February 5, 2013
March 16, 2010	150,000	0.30	4.21	March 16, 2015
	2,687,500			

The following table summarizes the changes in options for the years ended December 31, 2010 and 2009:

	2010		2009	
	Number of Options	**Weighted average price**	Number of Options	Weighted average price
Outstanding, beginning of year	**2,370,825**	**$0.28**	2,570,825	$0.28
Granted	**450,000**	**0.18**	-	-
Forfeited	**(25,000)**	**0.35**	-	-
Expired	**(108,325)**	**0.30**	(200,000)	0.30
Outstanding, end of year	**2,687,500**	**0.26**	2,370,825	0.28
Exercisable, end of year	**2,512,500**	**$0.26**	2,070,825	$0.27

There are 175,000 options that have not vested as at December 31, 2010 (December 31, 2009 - 300,000 options).

Stock-based compensation for the years ending December 31, 2010 and 2009 of $71,456 and $32,160, respectively, was calculated using the Black-Scholes option pricing model and recognized as an expense during the years. Stock-based compensation expense has no current period impact on the Company's cash position.

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

	2010	2009
Estimated per share fair value per option	**$0.02 - $0.11**	-
Risk-free interest rate	**1.6% - 2.75%**	-
Expected life	**1 – 5 years**	-
Expected volatility in stock price	**179% - 375%**	-
Expected annual dividend yield	**nil**	-
Estimated forfeiture rate	**0% - 25%**	-

21. Depreciation and amortization

The depreciation and amortization costs incurred for the years ending December 31, 2010 and 2009 are as follows:

		2010		2009
Property and equipment	**$**	**169,844**	$	151,922
Intangibles		**-**		77,048
	$	**169,844**	$	228,970

22. Finance costs

The finance costs incurred for the years ending December 31, 2010 and 2009 are as follows:

		2010		2009
Interest				
AFSC loans	**$**	**11,379**	$	13,904
Subordinated secured debentures		**56,500**		-
Capital leases		**9,033**		11,820
Operating line of credit		**8,201**		33
Other		**1,137**		663
		86,250		26,420
Accretion expense on subordinated secured debentures *(note 13)*		**85,937**		-
	$	**172,187**	$	26,420

The accretion expense on the subordinated secured debentures has no current period impact on the Company's cash position.

23. Non-operating income (expenses)

Other non-operating income and (expenses) incurred for the years ended December 31, 2010 and 2009 are as follows:

		2010		2009
Interest income	**$**	**11**	$	-
Foreign exchange		**(239)**		(407)
Other		**-**		21,600
Write down of technology license (see Note 9)		**-**		(27,718)
	$	**(228)**	$	(6,525)

24. Income taxes

The income tax expense differs from the amount computed by applying the statutory provincial and federal income tax rates to the respective year's income (loss) before income taxes. The differences for the year ended December 31, 2010 and year ended December 31, 2009 result from the following items:

		2010		2009
Net loss before income taxes	**$**	**(745,286)**	$	(1,309,804)
Expected income tax rate		**28%**		29.5%
Expected income tax recovery		**(208,680)**		(386,392)
Differences resulting from:				
Stock-based compensation		**20,008**		9,487
Accretion expense on subordinated secured debentures		**16,502**		-
Change in enacted rate and other		**83,809**		230,793
Tax effect of loss expiry		**249,604**		2,391
Change in valuation allowance		**(161,243)**		143,721
Provision for income taxes	**$**	**-**	$	-

The tax effects of deductible and taxable temporary differences that give rise to the Company's future tax assets and liabilities are as follows:

		2010		2009
Future tax assets				
Non-capital loss carry forwards	**$**	**1,341,527**	$	1,487,765
Cumulative eligible capital		**68,368**		76,455
Capital lease obligations		**22,025**		26,904
Other		**39,820**		12,293
		1,471,740		1,603,417
Future tax liabilities				
Property and equipment		**(107,406)**		(95,289)
Intangibles		**(116,279)**		(98,830)
		(223,685)		(194,119)
Valuation allowance		**(1,248,055)**		(1,409,298)
Future income tax asset (liability)	**$**	**-**	$	-

The Company has Canadian non-capital loss carry forwards which expire as follows: 2014 – $1,332,479; 2015 - $367,924; 2026 to 2030 - $3,325,141. The Company also has U.S. net operating losses of $215,650 which expire in 2029.

25. Loss per share

The number of shares included in the computation of basic and diluted loss per share for the years ending December 31, 2010 and 2009 is as follows:

	2010	2009
Weighted average shares outstanding - basic	**$ 33,465,994**	$ 33,465,994
Effect of stock options	**-**	-
Effect of share purchase warrants	**-**	-
Weighted average shares outstanding – fully diluted	**$ 33,465,994**	$ 33,465,994

The stock options and the share purchase warrants for the year ended December 31, 2010 and the stock options for the year ended December 31, 2009 have no dilutive effect as the Company realized a net loss during the periods.

26. Change in non cash working capital

The changes in non cash working capital items - asset (increase) decrease and liability increase (decrease) - are outlined below for the years ended December 31, 2010 and 2009.

	2010	2009
Trade and other receivables	**$ (585,389)**	$ 879,702
Inventory	**46,247**	(161,396)
Prepaid expenses and deposits	**(5,780)**	168,805
Trade and other payables	**29,101**	(26,351)
	$ (515,821)	$ 860,760

27. Related party transactions

In 2010, employees, directors and relatives of certain employees subscribed for $230,000 of the secured subordinated debentures (note 13). Scheduled interest payments and repayments on the subordinated secured debentures to these related parties in the year ended December 31, 2010 were $20,700 and $22,776, respectively. During the year, the Company incurred legal fees from 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.

28. Financial instruments

The Company has classified its financial instruments under the following classifications

(i) Cash is classified as financial assets held for trading;
(ii) Trade and other receivables are classified as loans and receivables;
(iii) 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.

28. Financial instruments (continued)

The Company's financial assets and liabilities recorded at fair value have been classified according to the following hierarchy based on the mount 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 inputes 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 date.

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, 6 customers accounted for approximately 92% of trade receivables (at December 31, 2009, 3 customers accounted for approximately 95% of trade receivables). (See Note 5 for details of credit policy and aging of outstanding trade receivables at December 31, 2010 and December 31, 2009).

(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 (note 13). Based on these restrictions the actual operating line availability at December 31, 2010 was $693,000 (December 31, 2009 $318,000).

29. Capital management

Management defines capital as the Company's total shareholders' equity, its long term debt and capital lease obligations. The Board of Directors does not establish a quantitative return on capital for management, but rather promotes year over year sustainable profitable growth. The consolidated capital structure of the Company at December 31, 2010 and December 31, 2009 is as follows:

		2010		2009
Long term debt (*Note 13*)	**$**	**515,032**	$	222,441
Capital lease obligations *(Note 14)*		**88,099**		103,478
Total debt		**603,131**		325,919
Shareholders' equity		**1,484,006**		2,068,959
Company's managed capital	**$**	**2,087,137**	$	2,394,878

The Company's current objective when managing capital is to increase the Company's 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.

30. Commitments

As at December 31, 2010, the Company had operating lease commitments for vehicles, equipment and facilities for the twelve months as follows: 2011 - $191,268; 2012 - $187,250; 2013 - $187,250; 2014 - $187,250.

Operating lease payments recognized as an expense was $169,109 for the year ended December 31, 2010 ($274,700 for the year ended December 31, 2009).

31. Comparative figures

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

32. Subsequent event

On January 31, 2011, the Company`s wholly owned subsidiary, CEMATRIX (Canada) Inc. signed a promissory note for $200,000 with the AFSC. The promissory note is due on August 1, 2011, bears interest at 4.48% and is secured by equipment and a General Security Agreement. The funds were drawn down in early February 2011 to support working capital requirements.