

CEMATRIX CORPORATION
Management's Discussion and Analysis
Quarter and Six Months Ended June 30, 2011

Date Completed: August 10, 2011

CEMATRIX CORPORATION

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Form 51-102F1 - Management's Discussion & Analysis For the Quarter and Six Months Ended June 30, 2011

The following is the management's discussion and analysis ("MD&A") of CEMATRIX Corporation ("CEMATRIX" or the "Company") for the quarter and six months ended June 30, 2011. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements of the Company for the quarter and six months ended June 30, 2011 and the related notes thereto ("Interim Consolidated Financial Statements") and the audited consolidated financial statements and MD&A of the Company for the year ended December 31, 2010 and related notes thereto. The Interim Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standard 1, "First-time Adoption of International Financial Reporting Standards", and with International Accounting Standard 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board. Prior to January 1, 2011, the Company prepared its Interim and Annual Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). All dollar figures included therein and in this MD&A are in Canadian dollars.

Additional information relevant to the Company's activities can be found on SEDAR at www.sedar.com. CEMATRIX is listed on the TSX Venture Exchange under the trading symbol "CVX".

The Audit Committee of the Company reviewed and recommended for approval by the Board of Directors of the Company the unaudited interim consolidated financial statements and MD&A for the quarter and six months ended June 30, 2011 and the Board of Directors of the Company reviewed and approved them on August 10, 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 for the year ended December 31, 2010, the significant market drivers and risk factors that affect its business and could cause actual results to differ materially from the forward-looking information disclosed herein. These factors remain substantially unchanged as of the date hereof. The Company cautions the reader that these factors are not exhaustive. The risk factors that could lead to differences in business results and which could cause actual results to differ materially from the forward-looking information disclosed herein include, without limitation, legislative and regulatory developments that may affect costs, revenues, the speed and degree of competition entering the market, global capital markets activity, timing and extent of changes in prevailing interest rates, inflation levels and general economic conditions in geographic areas where the Company operates, results of financing efforts, changes in counterparty risk and the impact of accounting standards issued by Canadian standard setters.

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

A. Purpose of the Company's MD&A

The purpose of this MD&A is to provide a narrative explanation, through the eyes of management, to assist the reader in understanding the Company's performance for the quarter and six months ended June 30, 2011, the Company's financial condition as at June 30, 2011 and its future prospects.

B. Second Quarter Highlights

- The Company recorded second quarter sales of \$1,824,975, up by \$1,680,223 from the same period in 2010.
- The Company reported earnings of \$85,241 in the second quarter, compared with a loss of \$527,321 in the same period in 2010, an improvement of \$612,562.
- The Company has \$6.8 million of contracted sales for 2011. Of this \$6.5 million are sales in the infrastructure market consisting of \$3.9 million in Canada and \$2.6 million in the United States ("U.S.").
- The Company has filed the required supplemental engineering studies with the Ministry of Transport of Ontario ("MTO") in regard to receiving product approval for road and other construction projects and is awaiting final approval.
- The Company continues to focus on managing its costs and cash flow.

C. Transition to IFRS

The Interim Consolidated Financial Statements as at June 30, 2011 are prepared in accordance with International Financial Reporting Standards ("IFRS") in conjunction with the Company's annual audited consolidated financial statements to be issued under IFRS as at and for the year ending December 31, 2011. As a result, these Interim Consolidated Financial Statements have been prepared in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" and with International Accounting Standard 34 ("IAS 34"), "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB"). Prior to January 1, 2011, the Company prepared its interim and annual Consolidated Financial Statements in accordance with Canadian GAAP.

IFRS requires the presentation of comparative information as at the January 1, 2010 conversion date and subsequent comparative periods as well as the consistent and retrospective application of IFRS accounting policies. In preparing its opening IFRS Financial Position, the Company has adjusted amounts reported previously in the consolidated financial statements prepared in accordance with Canadian GAAP. IFRS accounting policies have been retrospectively and consistently applied except where specific IFRS 1 optional and mandatory exemptions permitted an alternative treatment upon conversion to IFRS for first-time adopters. To assist with the conversion, the provisions of IFRS 1 allow for certain mandatory and optional exemptions for first-time adopters to alleviate the retrospective application of IFRS's.

An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the note and tables included in the note 26 – Transition to IFRS in the Interim Consolidated Financial Statements as at June 30, 2011.

The significant differences between the Company's previous Canadian GAAP accounting policies and those applied by the Company under IFRS are outlined below:

Market value adjustment

The Company utilized the exemption under IFRS 1 to fair value specific items of property and equipment at the date of conversion. As at January 1, 2010, management conducted an independent review of certain equipment, exclusively its dry and wet mix production units. The valuation used a replacement cost less depreciation approach ("Cost Approach"). The Cost Approach established value based on the cost of reproduction or replacement cost of the particular asset less depreciation from physical deterioration and functional and economic obsolescence. The Cost Approach was selected as in management's opinion this

method was the most reliable given that the equipment being valued was custom made for the unique production process of the Company. The fair value of the various component parts that made up each of the production units was determined from various manufacturers' pricing catalogues, manufacturer's quotes and other relevant material. In addition, for some of the equipment the Company had third party quotes for the manufacture of similar production units. The key estimate in this approach was the determination of the estimated remaining life of the various component parts and the unit as a whole. (see note 5 to the Interim Consolidated Financial Statements as at March 31, 2011 - Significant accounting policies – (D) Property and equipment – for information on the useful lives of various assets).

Depreciation and amortization

IAS 16 "Property, plant and equipment" 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.

Stock based compensation

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 a stock option award could be considered together for recognition purposes. In addition, IFRS 2 requires that a fair value be determined for stock options granted to consultants.

Other IFRS 1 exemptions taken by the Company at January 1, 2010 included the following:

- Borrowing costs directly attributable to the acquisition or construction of qualified assets were not retrospectively restated prior to January 1, 2010.
- Leases were not reassessed to determine whether an arrangement contained a lease under International Financial Reporting Interpretations Committee 4, "Determining whether an Arrangement contains a Lease" for contracts that were already assessed under Canadian GAAP.

The remaining IFRS 1 exemptions were not applicable or material to the preparation of the Company's Financial Position at the date of transition to IFRS on January 1, 2010.

D. Results of Operations

For the three months ending June 30, 2011 compared to the three months ending June 30, 2010

	Three Months Ended June 30		
	2011	2010	Change
Revenue	\$ <u>1,824,975</u>	\$ 144,752	\$ <u>1,680,223</u>
Gross margin	\$ 511,752	\$ (124,665)	\$ 636,417
Operating expenses	<u>(375,898)</u>	<u>(360,431)</u>	<u>(15,467)</u>
Operating income (loss)	135,854	(485,096)	620,950
Finance costs and other items	<u>(50,613)</u>	<u>(42,225)</u>	<u>(8,388)</u>
Comprehensive income (loss) for period	\$ <u>85,241</u>	\$ <u>(527,321)</u>	\$ <u>(612,562)</u>
Fully diluted income (loss) per common share for period	\$ <u>0.003</u>	\$ <u>(0.016)</u>	\$ <u>0.013</u>

Total revenue for the quarter ended June 30, 2011 was \$1,824,975 which was up by \$1,680,223 from the same quarter in 2010. New sales to the U.S. infrastructure market were \$353,263 or 19.4%. The balance of sales of \$1,471,712 were in Canada, with \$1,201,438 related to infrastructure markets and \$270,273 to oil

and gas projects. In 2011 the Company benefitted from strong sales growth in the U.S. and Canadian infrastructure markets. In the second quarter of 2010 sales were all in Canada, with \$123,720 to oil and gas projects and \$21,032 to the infrastructure market. In the second quarter of 2010, a number of projects were re-scheduled for later in that year.

The gross margin on sales was \$511,752 or 28% in the second quarter of 2011 as compared to a negative gross margin of \$124,665 in the same period of 2010. The increase in the gross margin is due principally to the sales growth in the infrastructure markets. The second quarter margin was negatively impacted by the change in depreciation methods to the straight line method (see note 4 – Significant accounting estimates and assumptions - Change in accounting estimate, to the Interim Consolidated Financial Statements as at June 30, 2011) which was the principal reason for the \$35,595 increase in depreciation recorded in cost of sales in the second quarter of 2011 compared to the same quarter in 2010.

Operating expenses for the quarter ended June 30, 2011 were \$375,898 as compared to \$360,431 in the same quarter of 2010. This \$15,467 or 4.3% increase is due to the aggregate of the following:

General and administrative costs were up by \$33,981:

- Salaries and benefits were up \$10,502 due to staff returning to full salaries in May 2011; in 2010 staff were under a shorter paid work week to reduce costs;
- Increased U.S. activity in 2011 resulted in a cost increase of \$5,807;
- In 2011 the Company put in place an arrangement with Export Development Canada to insure its U.S. dollar trade receivables – the cost of this program in the second quarter of 2011 was \$4,019;
- Increased activity resulted in an increase in bank charges of \$3,873;
- The change in depreciation methods to the straight line method (see note 4 – Significant accounting estimates and assumptions - Change in accounting estimate, to the Interim Consolidated Financial Statements as at June 30, 2011) was the principal reason for increased depreciation of \$3,462;
- In 2011 facility rent costs increased by \$6,132 – in 2010 the Company negotiated lower rent during the renovations to its offices;
- Stock based compensation was down by \$7,722 due primarily to some options fully vesting in 2010; and
- Other costs were up by \$7,908.

Sales, marketing and engineering costs decreased by \$18,514:

- Salaries and benefits were down \$27,380 due to a reduction in staff in August 2010;
- Commissions were up \$4,126 due to higher revenues;
- Marketing expenses were up by \$1,649 as the effort continues to gain acceptance of its product in new markets in Eastern Canada and the U.S.; and
- Other costs increased \$3,091 due to increase in activity.

Finance and other costs for the quarter ending June 30, 2011 were \$50,613 as compared to \$42,225 in the same quarter of 2010. This \$8,388 increase is due to the aggregate of the following:

- Other expenses were up by \$3,743:
 - In the second quarter of 2011 foreign exchange losses of \$9,234 were realized, primarily on the collection of \$U.S. trade receivables, compared with a foreign exchange gain of \$82 in the same period of 2010; and.
 - This was partially offset by a gain of \$5,573 in the second quarter of 2011 on the sale of equipment that was no longer required.
- Finance costs were up \$4,645:
 - Interest on the loans with the Agricultural Financial Services Corporation (“AFSC Loan or Loans”) was down \$2,508 as a result of the repayment of one of the AFSC Loans in December 2010;
 - Interest on the subordinated secured debentures (“Debentures”) was up by \$7,029 – this increase is due to an accrual recorded in 2011 for an additional interest payment on the Debentures as they were not repaid by July 22, 2011; the Company concluded in the first quarter of 2011 that it would not be in a position to repay the Debentures in July 2011 as it had previously been estimating (see note 13 – Long term debt to the Interim Consolidated Financial Statements as at June 30, 2011);
 - Interest on finance lease obligations was up by \$250 as a result of finance lease obligations added later in 2010 and in 2011;
 - Interest on the bank operating loan was up \$10,590 as the Company used this facility to finance its working capital in 2011; the bank operating loan was only required for a short time in the same period of 2010;
 - Interest of \$2,234 was incurred on the promissory note with the AFSC issued in early February of 2011;
 - The non cash accretion expense on the Debentures was lower by \$13,068 as the Company has revised its estimate of when the Debentures will be repaid and accordingly the period over which the accretion expense is recorded has been extended (see previous comment on Debenture interest and note 13 – Long term debt to the Interim Consolidated Financial Statements as at June 30, 2011); and
 - Other interest was up \$118 from the same period in 2010.

The net income for the quarter ended June 30, 2011 was \$85,241 compared with a net loss of \$527,321 for the same period in 2010. The improvement of \$612,562 was due to the significant increase in sales in 2011 compared to the same period in 2010 as a result of new infrastructure sales in the U.S. and strong growth in the Canadian infrastructure market.

For the six months ending June 30, 2011 compared to the six months ending June 30, 2010

	Six Months Ended June 30		
	2011	2010	Change
Revenue	\$ <u>2,656,106</u>	\$ 960,897	\$ <u>1,695,209</u>
Gross margin	\$ 557,792	\$ 47,863	\$ 509,929
Operating expenses	<u>(714,171)</u>	<u>(713,022)</u>	<u>(1,149)</u>
Operating loss	(156,379)	(665,159)	508,780
Finance costs and other items	<u>(112,786)</u>	<u>(75,715)</u>	<u>(37,071)</u>
Comprehensive loss for period	\$ <u>(269,165)</u>	\$ <u>(740,874)</u>	\$ <u>471,709</u>
Fully diluted income (loss) per common share for period	\$ <u>(0.008)</u>	\$ (0.022)	<u>0.014</u>

Total revenue for the six months ended June 30, 2011 was \$2,656,106 compared to \$960,897 for the same period in 2010, an increase of \$1,695,209. New U.S. infrastructure sales were \$707,322 in 2011. The balance of the increase came from an increase in Canadian infrastructure sales of \$881,062 and Canadian oil and gas project sales of \$106,825.

The gross margin on sales was \$557,792 or 21% as compared to a gross margin of \$47,863 or 5% in the same period of 2010, an increase of \$509,929. The increase in the gross margin is due principally to the sales growth in the infrastructure markets. The margin was negatively impacted by the change in depreciation methods to the straight line method (see note 4 – Significant accounting estimates and assumptions - Change in accounting estimate, to the Interim Consolidated Financial Statements as at June 30, 2011) which was the principal reason for the \$66,942 increase in depreciation recorded in cost of sales in the six months ended June 30, 2011 compared to the same period in 2010.

Operating expenses for the six months ended June 30, 2011 of \$714,171 were comparable to those reported in the same period of 2010. The \$1,149 increase is due to the aggregate of the following:

General and administrative costs were up by \$16,441:

- Salaries and benefits were up \$2,448 due to staff returning to full salaries in May 2011; in 2010 staff were under a shorter paid work week to reduce costs;
- Increased U.S. activity in 2011 resulted in a cost increase of \$12,588;
- In 2011 the Company put in place an arrangement with Export Development Canada to insure its U.S. dollar trade receivables – the cost of this program in 2011 was \$7,723;
- Increased activity resulted in an increase in bank charges of \$4,585;
- The change in depreciation methods to the straight line method (see note 4 – Significant accounting estimates and assumptions - Change in accounting estimate, to the Interim Consolidated Financial Statements as at June 30, 2011) was the principal reason for increased depreciation of \$5,373;
- In 2011 facility rent costs increased by \$5,638 – in 2010 the Company negotiated lower rent during the renovations to its offices;

- Stock based compensation was down by \$17,724 due primarily to some options fully vesting in 2010; and

- Other costs were down \$4,190.

Sales, marketing and engineering costs decreased by \$15,292:

- Salaries and benefits were down \$61,467 due primarily to the effect of a reduction in staff in August 2010;

- In 2011 the Company incurred \$27,893 in costs associated with engineering studies to support its application with the Ministry of Transportation of Ontario to receive approval of its products for road construction in Ontario;

- Marketing expenses were up by \$13,116 as the effort continues to gain acceptance of its product in new markets in Eastern Canada and the U.S.; and

- Other costs were up by \$5,166.

Finance and other costs for the six months ending June 30, 2011 were \$112,786 as compared to \$75,715 in the same period of 2010. This \$37,071 increase is due to the aggregate of the following:

- Other expenses were up by \$19,720.

- In the first six months of 2011 a loss of \$11,078 was incurred on the sale of equipment that was no longer required; and

- In the first six months 2011 a foreign exchange loss of \$8,703 was realized, primarily on the collection of \$U.S. trade receivables, compared with a foreign exchange loss of \$61 in the same period of 2010.

- Finance costs were up \$17,351:

- Interest on the loans with the AFSC was down \$2,873 as a result of the repayment of one of the AFSC Loans in December 2010;

- Interest on the subordinated secured debentures (“Debentures”) was up by \$16,358 - \$3,500 of this increase was due to the fact that the Debentures were only outstanding for part of January 2010; and \$12,858 relates to an accrual recorded in 2011 for an additional interest payment on the Debentures as they were not repaid by July 22, 2011; the Company concluded in the first quarter of 2011 that it would not be in a position to repay the Debentures in July 2011 as it had previously been estimating (see note 13 – Long term debt to the Interim Consolidated Financial Statements as at June 30, 2011);

- Interest on finance lease obligations was up by \$2,885 as a result of finance leases added later in 2010 and in 2011;

- Interest on the bank operating loan was up \$17,481 as the Company used this facility to finance its working capital; the bank operating loan was only used for a short period in 2010;

- Interest of \$3,535 was incurred in 2011 on the promissory note with the AFSC issued in early February of 2011;

- The non cash accretion expense on the Debentures was lower by \$20,267 as the Company has revised its estimate of when the Debentures will be repaid and accordingly the period over which the accretion expense is recorded has been extended (see previous comment on Debenture interest and note 13 – Long term debt to the Interim Consolidated Financial Statements as at June 30, 2011); and

- Other interest was up \$232 from the same period in 2010.

A net loss for the six months ended June 30, 2011 was \$269,165 compared with a net loss of \$740,874 for the same period in 2010. The improvement of \$471,709 was due to the significant increase in sales in 2011 compared to the same period in 2010 as a result of new infrastructure sales in the U.S. and strong growth in the Canadian infrastructure market.

E. Selected Quarterly Financial Information

Due to the seasonal nature of the Company's business, which historically follows the construction season in Canada, a significant portion of the Company's 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 Comprehensive Income (Loss)		
		Net Comprehensive Income (Loss)	Per Share Basic	Per Share Diluted
	\$	\$	\$	\$
2011 Year				
March 31	831,131	(354,406)	(0.011)	(0.011)
June 30	1,824,975	85,241	0.003	0.003
Total year to date	2,656,106	(269,165)	(0.008)	(0.008)
2010 Year*				
March 31	816,145	(213,553)	(0.006)	(0.006)
June 30	144,752	(527,321)	(0.016)	(0.016)
September 30	967,284	(78,086)	(0.002)	(0.002)
December 31	1,329,016	42,566	0.001	0.001
Total for year	3,257,197	(776,394)	(0.023)	(0.023)

*Restated for conversion to IFRS on January 1, 2010 – see below the reconciliation between IFRS and Canadian GAAP. The impact on loss per common share on a quarterly basis is not materially different; the comparative information by quarter for 2009 is not available.

Conversion to IFRS – 2010 quarterly reconciliation

	Q1	Q2	Q3	Q4	Year
Net Comprehensive Loss – Canadian GAAP	\$(213,924)	\$(526,726)	\$(70,380)	\$65,744	\$(745,286)
IFRS adjustments					
Depreciation and amortization	(7,229)	(8,195)	(10,306)	(11,878)	(37,608)
Stock based compensation	7,600	7,600	2,600	(11,300)	6,500
Net Comprehensive Loss - IFRS	\$(213,553)	\$(527,321)	\$(78,086)	\$42,566	\$(776,394)

Refer to Note 26 – Transition to IFRS in the Interim Consolidated Financial Statements as at June 30, 2011 for explanation of the IFRS adjustments.

F. Consolidated Statement of Financial Position

	June 30 2011	December 31 2010	Change
Total current assets	\$ 1,880,708	\$ 1,251,279	\$ 629,429
Total non current assets	<u>2,630,839</u>	<u>2,803,498</u>	<u>(172,659)</u>
Total Assets	<u>\$ 4,511,547</u>	<u>\$ 4,054,777</u>	<u>\$ 456,770</u>
Current liabilities	\$ 1,980,423	\$ 1,174,771	\$ 805,652
Non current liabilities	<u>230,152</u>	<u>313,491</u>	<u>(83,339)</u>
Total liabilities	<u>\$ 2,210,575</u>	<u>\$ 1,488,262</u>	<u>\$ 722,313</u>
Shareholders' equity	<u>\$ 2,300,972</u>	<u>\$ 2,566,515</u>	<u>\$ (265,543)</u>

Total current assets were \$1,880,708 at June 30, 2011 compared to \$1,251,279 at December 31, 2010. This increase of \$629,429 was due to the aggregate effect of the following:

- Cash in the bank was up \$9,586 (See the discussion in Section F - Consolidated Statement of Cash Flows);
- Restricted cash of \$27,408 was reported as at June 30, 2011 – this 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; the amount was up by \$4,361 from the amount at December 31, 2010 and this is principally due to increased sales and the collection thereof in comparison to the fourth quarter in 2010;
- Trade and other receivables were up by \$457,844 primarily as a result of the increase in sales in the quarter as compared with the fourth quarter of 2010;
- Inventory was up \$135,743 due to purchases of the foaming agent, used in the Company's production process, in the first six months of 2011 to replenish inventory levels to support the contracted sales as offset by the normal consumption in the production process; and
- Prepaids and deposits were up \$21,895 due to the normal cycle of prepayments relative to insurance and other items in the first six months of the year.

Total non current assets were \$2,630,839 at June 30, 2011 compared to \$2,803,498 at December 31, 2010. This decrease of \$172,659 was due to the aggregate of the following:

- Property and equipment was down \$172,659 - additions to property and equipment were \$55,863, including \$38,600 in new finance leases, depreciation expense was \$163,617, and the Company sold equipment with a net book value of \$64,905; and
- Intangibles remained at the same amount: no amortization is recorded on the remaining trademarks and technology as the Company views these as having an indefinite life.

Total current liabilities were \$1,980,423 at June 30, 2011 compared to \$1,174,771 at December 31, 2010. This increase of \$805,652 was due to the aggregate of the following:

- Bank overdraft, which represents checks written at the reporting date in excess of the bank balance, was up \$64,995 due to the increased activity in the second quarter as compared to the last quarter of 2010;
- Bank operating loan was up \$1,517 as the Company needed to draw on its credit facility to finance working capital;
- Trade and other payables were up \$500,242 principally due to the increased business activity in the second quarter of 2011 as compared to the last quarter of 2010;
- A promissory note was issued to the AFSC for \$200,000 in February 2011 to supplement the Company's credit line to finance working capital requirements;
- Current portion of long term debt was up \$47,535; the current portion of the AFSC Loan 2 increased by \$19,535 (scheduled repayments are in August and February) and the Company's estimate of the portion of the Debentures (see note 13 – Long term debt to the Interim Consolidated Financial Statements as at June 30, 2011) that will be repaid over the next 12 months from 3% of the cash revenues collected over this period, was increased by \$28,000 in 2011 as a result of the increase in contracted sales; and
- Current portion of finance lease obligations was down \$8,637 compared to the level as at December 31, 2010 due to scheduled repayments in 2011 and the payout of finance lease obligations related to equipment that was sold in 2011 (see note 18 – Other income (expenses) to the Interim Consolidated Financial Statements as at June 30, 2011).

Total non current liabilities were \$230,152 at June 30, 2011 compared to \$313,491 at December 31, 2010. This decrease of \$83,339 was due to the aggregate of the following:

- Long term debt was down by \$76,420; the Debentures were lower by \$56,885 as a result of repayments of \$46,596 and an increase in the portion classified as current of \$28,000 (see current portion of long term debt above) as partially offset by the accretion expense of \$17,711; the AFSC Loan 2 was down by \$19,535 due to the classification of scheduled repayments to current portion of long term debt (see comments above under current portion of long term debt); and
- Finance lease obligations were down \$6,919 compared to the level as at December 31, 2010 due to repayments of \$54,156, including scheduled repayments and the payout of finance lease obligations related to equipment that was sold in 2011; this was partially offset by new finance lease obligations entered into in 2011 of \$38,600 and the decrease in the current portion as covered above under the current portion of finance lease obligations.

Shareholders' Equity was \$2,230,972 at June 30, 2011 compared to \$2,566,515 at December 31, 2010. This decline of \$265,543 is due to the following:

- No new share capital was issued in 2011;
- Contributed surplus increase is due the stock based compensation charge of \$3,622; and
- The deficit increased by the loss in the period of \$269,165.

See the Consolidated Statements of Shareholders' Equity included in the Interim Consolidated Financial Statements at June 30, 2011.

G. Consolidated Statement of Cash Flows

For the three months ending June 30, 2011 compared to the three months ending June 30, 2010

The cash position of the Company at June 30, 2011 was a negative \$165,124 (consisting of cash in the bank of \$13,234 net of bank overdraft of \$178,358) compared to a negative cash position of \$1,190 (consisting of cash in the bank of \$13,810 net of bank overdraft of \$15,000) at June 30, 2010.

The change in the cash position in the quarters ending June 30, 2011 and 2010 was an increase of \$4,698 in 2011 as compared to a decrease of \$53,737 in the same period of 2010. This change is outlined in the table below:

	Three Months Ended June 30		
	2011	2010	Change
Cash provided by (used in) operating activities	\$ 195,285	\$ (3,079)	\$ 198,364
Cash provided by (used in) investing activities	5,187	(16,011)	21,198
Cash provided by (used in) financing activities	(195,774)	(34,647)	(161,127)
Increase (decrease) in cash	4,698	(53,737)	58,435
Cash, at beginning of period	(169,822)	52,547	(222,369)
Cash, at end of period	\$ (165,124)	\$ (1,190)	\$ (163,934)
Cash Position			
Cash in the bank	\$ 13,234	\$ 13,810	\$ (576)
Bank overdraft	(178,358)	(15,000)	(163,358)
	\$ (165,124)	\$ (1,190)	\$ (163,934)

- Cash provided by operating activities was \$195,285 in the second quarter of 2011 as compared to using \$3,079 in the same period in 2010, an improvement of \$198,364.

- The positive cash flow, before non cash working capital adjustments, was higher by \$626,001 compared with the same period of 2010. This increase was due to the improved earnings of \$612,562 compared to 2010 and an increase of \$13,439 in the adjustment for non-cash items in the reported earnings in 2011 compared to the same period in 2010.

- This increase in cash flow was offset by a lower adjustment for the net change in non-cash working capital items of \$427,637 as compared to 2010. This is primarily due to the significant increase in sales in the second quarter of 2011 compared to the same quarter in 2010 and the timing of the collection of the related trade receivables.

- Cash provided by investing activities was \$5,187 in 2011 which consisted of cash proceeds of \$14,960 on the sale of equipment less cash additions to property and equipment of \$9,773; in 2010 cash was used for additions to property and equipment of \$16,011.

- Cash used in financing activities was \$195,774 in the second quarter of 2011 compared to \$34,647 in the same period in 2010.

- In 2011 the Company reduced its bank operating loan by \$153,483; made repayments of \$17,762 on the Debentures and \$7,092 on finance lease obligations; and the restricted cash balance, in regard to the future repayments on the Debentures, increased by \$17,437 due to the collection of trade receivables in the quarter.

- In 2010, the Company made repayments of \$5,406 on the Debentures and \$10,145 on finance lease obligations; and the change in the restricted cash balance, in regard to the future repayments on the Debentures, increased by \$19,096 due to the collection of trade receivables in the quarter.

For the six months ending June 30, 2011 compared to the six months ending June 30, 2010

The cash position of the Company at June 30, 2011 was a negative \$165,124 (consisting of cash in the bank of \$13,234 net of bank overdraft of \$178,358) compared to a negative cash position of \$1,190 (consisting of cash in the bank of \$13,810 net of bank overdraft of \$15,000) at December 31, 2010.

The change in the cash position in the six months ending June 30, 2011 and 2010 was a decrease of \$55,409 in 2011 as compared to a decrease of \$111,500 in the same period of 2010. This change is outlined in the table below:

	Six Months Ended June 30		
	2011	2010	Change
Cash provided by (used in) operating activities	\$ (188,377)	\$ (490,986)	\$ 302,609
Cash provided by (used in) investing activities	36,564	(19,911)	56,475
Cash provided by (used in) financing activities	96,404	399,397	(302,993)
Increase (decrease) in cash	(55,409)	(111,500)	56,091
Cash, at beginning of period	(109,715)	110,310	(220,025)
Cash, at end of period	\$ (165,124)	\$ (1,190)	\$ (163,934)
Cash Position			
Cash in the bank	\$ 13,234	\$ 13,810	\$ (576)
Bank overdraft	(178,358)	(15,000)	(163,358)
	\$ (165,124)	\$ (1,190)	\$ (163,934)

- Cash used in operating activities was \$188,377 in the first six months of 2011 as compared to using \$490,986 in the same period in 2010, a decrease of \$302,609.

- The negative cash flow, before non cash working capital adjustments, was lower by \$518,599 compared with the same period of 2010. This improvement was due to the decrease in the reported comprehensive loss of \$471,709 compared to 2010 in addition to the increase of \$46,890 in the adjustment for non-cash items in the reported net loss in 2011 compared to the same period in 2010.

- This decrease in cash flow was offset by a lower adjustment for the net change in non-cash working capital items of \$215,990 as compared to 2010. This is primarily due to the significant increase in sales in the second quarter of 2011 compared to the same quarter in 2010 and the timing of the collection of the related trade receivables.

- Cash provided by investing activities was \$36,564 in 2011 which consisted of cash proceeds of \$53,827 on the sale of equipment less cash additions to property and equipment of \$17,263; in 2010 cash was used for additions to property and equipment of \$19,911.

- Cash provided from financing activities was \$96,404 in the first six months of 2011 compared to \$399,397 in the same period in 2010.

- In 2011 the Company used an additional \$1,517 of the bank operating loan and the issue of a promissory note to the AFSC for \$200,000 to finance working capital. Repayments of the Debentures and the finance lease obligations were \$46,596 and \$54,156, respectively. The restricted cash balance, in regard to the future repayments on the Debentures, increased by \$4,361 due to the collection of trade receivables in the quarter.

- In 2010, the Company completed the Private Placement for \$500,000, which resulted in net proceeds to the Company of \$444,384 after issue costs. For accounting purposes, the net proceeds of the Private Placement were allocated to the Debentures and to the share purchase warrants relative to their fair value with \$355,507 for the Debentures and \$88,877 for the share purchase warrants (see note 13 to the Interim Consolidated Financial Statements at June 30, 2011). In 2010, repayments on

the Debentures and finance lease obligations were \$5,406 and \$20,254, respectively. The restricted cash balance, in regard to the future repayments on the Debentures, increased by \$19,327 due to the collection of trade receivables in the quarter.

H. Liquidity and Capital Resources

Liquidity

At June 30, 2011, the Company had consolidated net working capital (current assets, excluding cash and restricted cash, less trade and other payables) of \$1,079,404 compared to \$964,164 at December 31, 2010. The increase of \$115,240 is itemized in the following table:

	June 30 2011	December 31 2010	Change
Working capital			
Trade and other receivables	\$ 1,222,580	\$ 764,736	\$ 457,844
Inventory	530,215	394,472	135,743
Prepaid expenses and deposits	87,271	65,376	21,895
	<u>1,840,066</u>	<u>1,224,584</u>	<u>615,482</u>
Less: Trade and other payables	(760,662)	(260,420)	(500,242)
Total Consolidated Net Working Capital	<u>\$ 1,079,404</u>	<u>\$ 964,164</u>	<u>\$ 115,240</u>

The increase in consolidated net working capital of \$115,240 is principally due to the increase in trade receivables due to the strong sales in 2011 and the purchase of inventory to support 2011 contracted sales. This was 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 F - Consolidated Statement of Financial Position herein.

As of June 30, 2011, the Company had a negative cash position of \$165,124 (consisting of cash in the bank of \$13,234 and net of the bank overdraft of \$178,358) and consolidated net working capital of \$1,079,404.

The Company has a demand operating facility under its credit facility with a Canadian chartered bank of \$1,000,000. Under the credit facility, the bank will advance the following:

- On trade receivables less than ninety days outstanding at the end of each month, net of any priority claims - up to a maximum of 75% of trade receivables from companies resident in Canada and 90% of trade receivables from companies resident in the United States; and
- 50% of qualified inventories up to a maximum of \$250,000.

Based on the restrictions in the Credit Facility the actual operating line availability at June 30, 2011 was \$1,000,000 (\$693,000 at December 31, 2010).

In the first quarter of 2011 the Company entered into an arrangement through Export Development Canada to insure trade receivables for sales to qualified companies resident in the U.S. The Company has completed a direct to pay of any insurance proceeds to the Company's bank. As a result of this arrangement the Company's bank has agreed to advance up to 90% of trade receivables from qualified companies resident in the United States on the credit facility.

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

At June 30, 2011 and December 31, 2010, the Company had utilized \$512,865 and \$511,348, respectively, of its demand operating facility and was in full compliance with its debt covenants.

The Company uses this credit facility to finance working capital requirements, as required.

The realization of the consolidated net working capital as at June 30, 2011 (outlined previously), the availability of its operating line of credit and the \$6.8 million in sales contracts that are in place for sales in 2011 should provide the necessary liquidity to carry the Company's operations through 2011.

The Company is facing a short term cash flow challenge over the next three months as it must manage its increasing working capital requirements, as a result of the increase in contracted sales, to ensure that it does not cause bank borrowings to exceed the \$1 million limit that is available through the demand operating facility. In this regard the Company is seeking alternative sources of short term funding. No assurance can be given at this time as to whether the Company will be successful in these discussions or whether the additional short term funding will be required.

As mentioned above, the Company has signed contracts on hand for \$6.8 million in sales scheduled for 2011. Of this \$2.656 million is completed as of June 30, 2011 and a significant portion of the balance is currently scheduled for completion in the third quarter. The timing of when this work proceeds, as well as the timing of collection of the related trade receivables, is beyond the control of management. The uncertainty of the related cash flow from these sales remains until this work is completed and the sales are collected. Assuming that sales and collections proceed as management is forecasting the Company's liquidity position will improve significantly by the end of the third quarter of 2011.

Ongoing liquidity beyond 2011 is dependent on the Company generating sufficient future sales.

Capital management

The Company defines its capital as its long term debt, the finance lease obligations and shareholders' equity. The current objective of the Company is to manage its capital through growth in earnings and to re-invest the earnings generated to facilitate the continued growth in the Company, in order to provide an appropriate rate of return to shareholders in relation to the risks underlying the Company's assets. The consolidated capital of the Company, as outlined in Note 25 - Capital management to the Interim Consolidated Financial Statements as at June 30, 2011, was \$2,859,662 as compared to \$3,169,646 at December 31, 2010. The decrease of \$309,984 was principally the result of repayments on long term debt and finance lease obligations and the loss reported of \$269,165 (see Section F. Consolidated Statement of Financial Position for details).

Commitments

There has been no material change in the commitments of the Company to that reported in the audited Consolidated Financial Statements and MD&A for the year December 31, 2010.

The Company has no material capital spending commitments at June 30, 2011.

I. Off Balance Sheet Arrangements

There were no off balance sheet arrangements at June 30, 2011 or December 31, 2010.

J. Transactions with Related Parties

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 quarter ending June 30, 2011 were \$15,069 (\$9,387 for the quarter ending June 30, 2010) and \$35,217 for the six months ended June 30, 2010 (\$9,387 for the six months ending June 30, 2010). Accrued interest on the subordinated secured debentures as at June 30, 2011 for these related parties was \$11,205 (\$5,290 as December 31, 2010). Restricted cash as at June 30, 2011

includes \$12,608 of cash revenues collected that will be used for repayments of the subordinated secured debentures held by these related parties (\$10,602 as at December 31, 2010).

During the quarter and the six months ending June 30, 2011, the Company incurred legal fees from a firm which employs one of the directors of the Company in the amount of \$1,802 and \$4,552, respectively (\$nil and \$nil, respectively for the quarter and six months ending June 30, 2010).

There were no other significant related party transactions and these were in the normal course of operations and measured at the exchange rate.

K. Critical Accounting Estimates and Assumptions

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the interim consolidated financial statements are:

A) Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next three - five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

B) Share-based payment transactions

The Company measures the cost of share-based payment transactions with employees by reference to the fair value of the equity instruments. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility and dividend yield of the share option. The Company measures the cost of share-based payment transactions with consultants by reference to the fair value of the services to be performed.

C) Income Taxes

Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

D) Useful lives of property and equipment

The Company estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful lives of property and equipment are based on internal technical evaluation and experience with similar assets. It is possible, however, that future results of

operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property and equipment would increase the recorded expenses and decrease the non-current assets.

E) Allowance for doubtful debts

The Company makes allowance for doubtful debts based on an assessment of the recoverability of receivables. Allowances are applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Management specifically analyses historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in customer payment terms when making a judgment to evaluate the adequacy of the allowance of doubtful debts of receivables. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables.

F) Subordinated secured debenture repayments

Estimates of the amount of the subordinated secured debentures that are repayable within the next twelve months from the balance sheet date 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 a reporting date management is required to forecast future revenues and the cash collection of this future revenue.

G) Fair value of financial instruments

The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty. Trade receivables are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary.

Changes in accounting estimate

The Company completed a review of the useful life of its property and equipment and effective January 1, 2011 changed the depreciation methodology for property and equipment to the straight line method from the declining balance and unit of production methods. This change has been accounted for as a change in estimate on a prospective basis. It is impracticable to estimate the impact on future periods as a significant component of property and equipment was depreciated using the unit of production basis and the related amount of depreciation expense was dependant on future production levels which are uncertain.

Going concern assumption

The interim 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 had a deficit amounting to \$5,612,677 at June 30, 2011 (as at December 31, 2010 - \$5,343,512). Cash flows from operations, before the net change in non-cash working capital items for the six months ended June 30, 2011, were negative \$73,137 compared to negative \$591,736 for the same quarter in 2010 and a negative \$418,049 for the year ended December 31, 2010.

The Company has contracted sales for 2011 of \$6.8 million, of which \$2.656 million is complete as of June 30, 2011 and a significant portion the remaining is currently scheduled for completion in the third quarter. The Company's existing bank operating loan facility is currently limited to \$1.0 million. Management must manage its working capital and cash flow closely over the next three months to ensure that its bank loan level does not exceed the current approved level. The timing of the sales and the timing of collection of the associated trade receivables is substantially beyond the control of the Company.

Management is in discussions with potential lenders to access additional short term funding to finance the expected growth in working capital as a result of the contracted sales that are in place. No assurance can be given at this time as to whether the Company will be successful in these discussions or whether the additional short term funding will be required.

These interim 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.

L. Changes in Accounting Policies including Initial Adoption

Recent pronouncements issued

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

On or after July 1, 2012 the Company will be required to adopt amendments to IAS 1, "Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income". The amendments split items of other comprehensive income between those classified to income and those that do not. The Company is evaluating the impact that this standard may have on its results of operation and financial position.

As of January 1, 2013, the Company will be required to adopt IFRS 9, "Financial Instruments", which is the result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The adoption of this standard should not have a material impact on the Company.

As of January 1, 2013 the Company will be required to adopt IFRS 12, "Disclosure of Interest in Other Entities". The standard requires a company to provide disclosures about subsidiaries, joint arrangements, associates and unconsolidated structured entities. The adoption of this standard should not have a material impact on the Company.

As of January 1, 2013, the Company will be required to adopt IFRS 13, "Fair Value Measurement". The standard provides guidance on determining fair value and requires disclosure about these measurements. The adoption of this standard should not have a material impact on the Company.

M. Financial Instruments

Financial instruments are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs.

At initial recognition, all financial instruments are classified in one of the following categories depending on the purpose for which the instruments were acquired:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading or is designated as such by management. Such assets are held for trading if it is acquired principally for the purpose of selling in the short-term. These assets are initially recognized, and subsequently carried, at fair value, with changes recognized in the Consolidated Statement of Comprehensive Income (Loss). Transaction costs are expensed. Assets in this category include cash and cash equivalents.

Loans and receivables

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less any impairment losses, with interest expense recognized on an effective yield basis. Assets in this category include trade and other receivables.

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the trade receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is

impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the Consolidated Statement of Comprehensive Income (Loss). When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. Liabilities in this category include operating line, trade and other payables, promissory note and long-term debt.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

The fair values of cash, trade and other receivables, bank overdraft and bank operating loan, trade and other payables and the promissory note 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 inputs, 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 June 30, 2011 of \$512,865 and \$511,348 at December 31, 2010. 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 and the promissory note 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 June 30, 2011, 6 customers accounted for approximately 94% of trade receivables (at December 31, 2010, 6 customers accounted for approximately 92% of trade receivables). (See Note 6 – Trade and other receivables to the Interim Consolidated Financial Statements for details of credit policy).

The aging of the trade receivables that were past due but not impaired was as follows as of June 30, 2011 and December 31, 2010:

	<u>Trade Receivables Aging</u>		<u>Holdback Amounts Included in Trade Receivables</u>	
	2011	2010	2011	2010
1-30 days	\$ 872,910	\$ 114,825	\$ 41,670	\$ 13,492
30-60 days	163,042	301,776	-	51,573
61-90 days	101,619	311,993	-	48,070
Greater than 90 days	39,783	-	30,416	-
	\$ 1,177,354	\$ 728,594	\$ 72,086	\$ 113,135

The Company had no impaired trade receivables at June 30, 2011 and December 31, 2010.

Liquidity Risk

Liquidity risk management involves maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit lines. Due to the nature of the business, the Company aims to maintain flexibility in funding by keeping committed credit lines available and limiting the investment of available cash to short term risk free interest bearing deposits. At June 30, 2011, the Company had access to \$1,000,000 in bank operating line financing subject to advance restrictions on the level of qualified trade receivables and inventories (see note 10 – Bank operating loan to the Interim Consolidated Financial Statements at June 30, 2011). Based on these restrictions the actual operating line availability at June 30, 2011 was \$1,000,000 (December 31, 2010 \$693,000).

N. Disclosure of Outstanding Share Data

As at June 30, 2011 and August 10, 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 June 30, 2011</u>	<u>Outstanding as at August 10, 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 1,537,500 Common Shares at an exercise price at between \$0.10-\$0.35	Stock options to acquire 2,902,500 Common Shares at an exercise price at between \$0.10-\$0.15
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

On April 11, 2011, 1,150,000 stock options to certain employees, directors and consultants expired.

On July 15, 2011 the Company granted new incentive stock options to directors, employees and consultants for the purchase of a total of 1,365,000 shares at an exercise price of \$0.15 per share for a term of three years. The stock options vest as to one third immediately and one third on each of the first and second anniversaries of the grant date.

In July 2011 the Company re-priced an aggregate of 937,500 outstanding incentive stock options granted to directors and employees with expiration dates ranging from June 1, 2012 to March 16, 2015, from exercise prices ranging from \$0.30 to \$0.35 per share to the new amended option exercise price of \$0.15 per share. The re-pricing of these options received the approval of the disinterested shareholders of the Company at the annual shareholder meeting on June 15, 2011 and of the TSX Venture exchange on July 21, 2011.

O. Outlook

The outlook for 2011 continues to look positive provided contracted sales are completed as scheduled. The Company has \$6.8 million of contracted sales, a significant portion of which is scheduled for completion in the third quarter. The Company has no control over the scheduling of the projects, so it is possible that some of these sales could move to the fourth quarter, or even into the next year.

Management continues to closely manage its cash flow and costs. The Company is facing a short term cash flow challenge over the next three months as it must manage its increasing working capital requirements, as a result of the increase in contracted sales, to ensure that it does not cause bank borrowings to exceed the \$1 million limit that is available through its demand operating facility. The Company is also looking at other financing arrangements to supplement the bank operating loan to assist with the financing of working capital on a short term basis, should it be required.

CEMATRIX CORPORATION
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**Form 51-102F1 - Management's Discussion & Analysis
For the Quarter and Six Months Ended June 30, 2011**

Appendix A – Forward Looking Statements

The forward-looking statements in the MD&A for the quarter ending March 31, 2011 are outlined below:

Page 16 – Liquidity and Capital Resources

The realization of the consolidated net working capital as at June 30, 2011 (outlined previously), the availability of its operating line of credit and the more than \$6.8 million in sales contracts that are in place for sales in 2011 should provide the necessary liquidity to carry the Company's operations through 2011.

Assuming that sales and collections proceed as management is forecasting the Company's liquidity position will improve significantly by the end of the third quarter of 2011.

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 2011, 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 are 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; and the Company's cost structure is significantly different than forecast.

Page 22 – Outlook

The outlook for 2011 continues to look positive provided contracted sales are completed as scheduled.

The foregoing statements contain forward-looking statements which are based on sales and earnings 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 2011, 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; earnings forecasts for 2011 are 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; and the Company's cost structure is significantly different than forecast.