

CEMATRIX CORPORATION
Management's Discussion and Analysis
Quarter and Nine Months Ended September 30, 2011

Date Completed: November 22, 2011

CEMATRIX CORPORATION

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

The following is the management's discussion and analysis ("MD&A") of CEMATRIX Corporation ("CEMATRIX" or the "Company") for the quarter and nine months ended September 30, 2011. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements of the Company for the quarter and nine months ended September 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 nine months ended September 30, 2011 and the Board of Directors of the Company reviewed and approved them on November 22, 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 nine months ended September 30, 2011, the Company's financial condition as at September 30, 2011 and its future prospects.

B. Third Quarter Highlights

- The Company recorded record third quarter sales of \$3,424,336, up by \$2,457,052 from the same period in 2010.
- The Company reported earnings of \$739,188 in the third quarter, compared with a loss of \$78,086 in the same period in 2010, an improvement of \$817,274.
- The Company reported cash from operations, before net change in non-cash working capital, in the third of \$874,558, up from \$9,935 in the same period of 2010.
- The Company now has a total of \$9.3 million of contracted sales of which \$7.8 million are scheduled for completion in 2011 and \$1.5 million is scheduled for 2012.
- The Company has filed the required information with the Ministry of Transport of Ontario ("MTO") in regard to receiving product approval for road and other construction projects in Ontario and is awaiting a decision on its application.
- The Company continues to focus on managing its growth, costs and cash flow.

C. Transition to IFRS

The Interim Consolidated Financial Statements as at September 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 25 – Transition to IFRS in the Interim Consolidated Financial Statements as at September 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 September 30, 2011 compared to the three months ending September 30, 2010

	Three Months Ended September 30		
	2011	2010	Change
Revenue	\$ <u>3,424,336</u>	\$ 967,284	\$ 2,457,052
Gross margin	\$ 1,264,155	\$ 278,996	\$ 985,159
Operating expenses	<u>(486,687)</u>	<u>(310,988)</u>	<u>(175,699)</u>
Operating income (loss)	777,468	(31,992)	809,460
Finance costs and other items	<u>(38,280)</u>	<u>(46,094)</u>	<u>7,814</u>
Comprehensive income (loss) for period	\$ <u>739,188</u>	\$ <u>(78,086)</u>	\$ <u>817,274</u>
Fully diluted income (loss) per common share for period	\$ <u>0.022</u>	\$ <u>(0.002)</u>	\$ <u>0.024</u>

Revenue for the quarter ended September 30, 2011 was \$3,424,336 compared to \$967,284 for the same quarter of 2010, an increase of \$2,457,052. New U.S. infrastructure sales were \$595,884. The balance of the increase came from an increase in Canadian infrastructure sales of \$632,424 and Canadian oil and gas project sales of \$1,228,744. In 2011 the Company has benefitted from strong sales growth in the U.S. and Canadian infrastructure markets. In addition in the third quarter of 2011 the Company completed a significant project in the Alberta oil and gas sector. In the third quarter of 2010 sales were all in Canada, with \$100,617 to oil and gas projects and \$866,667 to the infrastructure market.

The gross margin on sales was \$1,264,155 or 37% in the third quarter of 2011 as compared to a gross margin of \$278,996 or 29% in the same period of 2010. The increase in the gross margin is due principally to the significant increase in sales volume compared with the same period in 2010. In 2011 this increase in sales volume enabled the fixed operation's costs of the Company to be spread over a higher number of units poured which helped to increase the margin percentage. The third quarter margin in 2011 was negatively impacted by the change in depreciation methods to the straight line method (see note 3 – Significant accounting estimates and assumptions - Change in accounting estimate, to the Interim Consolidated Financial Statements) which was the principal reason for a \$25,416 increase in depreciation recorded in cost of sales in the third quarter of 2011 compared to the same quarter in 2010.

Operating expenses for the quarter ended September 30, 2011 were \$486,687 as compared to \$310,988 in the same quarter of 2010. This \$175,699 or 56% increase is due to the aggregate of the following:

General and administrative costs were up by \$92,920:

- Salaries and benefits were up \$27,385 due to staff returning to full salaries in May 2011; in 2010 staff were under a shorter paid work week to reduce costs;
- 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 third quarter of 2011 was \$6,466;
- Stock based compensation was up by \$37,319 due primarily to the partial vesting of new options granted to certain employees and certain directors on July 15, 2011;
- The Company has increased its provision for audit fees for the IFRS conversion and this had an impact of \$8,205 in the quarter as compared to 2010: and
- Other costs were up by \$13,545 due to an increase in activity.

Sales, marketing and engineering costs increased by \$82,779:

- Salaries and benefits were up \$34,572 due to staff returning to full salaries in May 2011 and a full time sales person for the U.S.; in 2010 staff were under a shorter paid work week to reduce costs;
- Commissions were up \$28,312 due to higher revenues on which the commissions are determined;
- Marketing expenses were up by \$5,769 as the effort continues to gain acceptance of its product in new markets in Eastern Canada and the U.S.; and
- Other costs increased \$14,126 due to increase in sales activity.

Finance and other income (expenses) for the quarter ending September 30, 2011 were \$38,280 as compared to \$46,094 in the same quarter of 2010. This \$7,814 decrease is due to the aggregate of the following:

- Other income was \$8,221 compared with an expense of \$158, a positive change of \$8,379:
 - In the third quarter of 2011 foreign exchange income of \$8,221 was recorded; an unrealized foreign exchange income item of \$16,168 was recorded on adjusting \$U.S. trade receivables to the quarter

end spot rate and this was partially offset by realized foreign exchange losses on the collection of U.S. trade receivables and unrealized foreign exchange adjustments on translation of U.S. operations; this compared with a realized foreign exchange loss \$158 in the same period of 2010; and.

- Finance costs were up \$565:

- Interest on the subordinated secured debentures (“Debentures”) was up by \$6,142 – this increase is due to an accrual recorded in 2011 for additional interest payments on the Debentures; the terms of the Debentures are such that an extra quarterly interest payment is required if the Debentures are not repaid on certain dates (see note 12 – Long term debt to the Interim Consolidated Financial Statements);

- Interest on the bank operating loan was up \$6,582 as the Company used this facility to finance its increased working capital requirements in 2011; the bank operating loan was only required for a short time in the same period of 2010;

- The non cash accretion expense on the Debentures was lower by \$14,178; in the second quarter of 2011 the Company revised its estimate of when the Debentures will be repaid and accordingly the period over which the accretion expense is recorded was extended (see previous comment on Debenture interest and note 12 – Long term debt to the Interim Consolidated Financial Statements); and

- Interest on various other obligations was up \$2,019 from the same period in 2010.

The net income for the quarter ended September 30, 2011 was \$739,188 compared with a net loss of \$78,086 for the same period in 2010. The improvement of \$817,274 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., strong growth in the Canadian infrastructure market and sales to a large Canadian oil and gas project in the quarter.

For the nine months ending September 30, 2011 compared to the nine months ending September 30, 2010

	Nine Months Ended September 30		
	2011	2010	Change
Revenue	\$ <u>6,080,442</u>	\$ <u>1,928,181</u>	\$ <u>4,152,261</u>
Gross margin	\$ 1,821,947	\$ 326,859	\$ 1,495,088
Operating expenses	<u>(1,200,858)</u>	<u>(1,024,010)</u>	<u>(176,848)</u>
Operating income (loss)	621,089	(697,151)	1,318,240
Finance costs and other items	<u>(151,066)</u>	<u>(121,809)</u>	<u>(29,257)</u>
Comprehensive income (loss) for period	\$ <u>470,023</u>	\$ <u>(818,960)</u>	\$ <u>1,288,983</u>
Fully diluted income (loss) per common share for period	\$ <u>0.014</u>	\$ <u>(0.024)</u>	\$ <u>0.038</u>

Revenue for the nine months ended September 30, 2011 was \$6,080,442 compared to \$1,928,181 for the same period in 2010, an increase of \$4,152,261. New U.S. infrastructure sales were \$1,303,206 in 2011. The balance of the increase came from an increase in Canadian infrastructure sales of \$1,493,486 and Canadian oil and gas project sales of \$1,355,569.

The gross margin on sales was \$1,821,947 or 30% as compared to a gross margin of \$326,859 or 17% in the same period of 2010, an increase of \$1,495,088. The increase in the gross margin is due principally to the significant increase in sales volume compared with the same period in 2010. In 2011 this increase in sales volume enabled the fixed operation's costs of the Company to be spread over a higher number of units poured which helped to increase the margin percentage. The margin was negatively impacted by the change in depreciation methods to the straight line method (see note 3 – Significant accounting estimates and assumptions - Change in accounting estimate, to the Interim Consolidated Financial Statements) which was the principal reason for the \$92,358 increase in depreciation recorded in cost of sales in the nine months ended September 30, 2011 compared to the same period in 2010.

Operating expenses for the nine months ended September 30, 2011 of \$1,200,858 as compared to \$1,024,010 reported in the same period of 2010. The \$176,848 increase is due to the aggregate of the following:

General and administrative costs were up by \$109,361:

- Salaries and benefits were up \$29,832 due to staff returning to full salaries in May 2011; in 2010 staff were under a shorter paid work week to reduce costs;
- 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 \$14,189;
- Stock based compensation was up by \$19,595 due primarily to the partial vesting of new options granted to certain employees and certain directors on July 15, 2011;
- The Company has increased its provision for 2011 audit fees for the IFRS conversion by \$15,000; and
- Other costs were up by \$30,745 due to an increase in activity.

Sales, marketing and engineering costs increased by \$67,487:

- Salaries and benefits were down \$32,178 due primarily to the effect of a reduction in staff in August 2010; the vacant position was filled in July 2011;
- Commissions were up \$24,961 due to higher revenues on which the commissions are determined;
- In 2011 the Company incurred \$35,820 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 \$21,385 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 \$17,499 due to an increase in sales activity.

Finance and other income (expenses) for the nine months ending September 30, 2011 were \$151,066 as compared to \$121,809 in the same period of 2010. This \$29,257 increase is due to the aggregate of the following:

- Other expenses were up by \$11,341.
- In the first nine months of 2011 a loss of \$11,078 was incurred on the sale of equipment that was no longer required; and
- In the first nine months of 2011 a foreign exchange loss of \$482 was recorded; an unrealized foreign exchange income item of \$16,168 was recorded in the third quarter on adjusting U.S. trade receivables to the quarter end spot rate and this was offset by realized foreign exchange losses on the

collection of U.S. trade receivables and unrealized foreign exchange adjustments on translation of U.S. operations; this compared with a realized foreign exchange loss \$219 in the same period of 2010.

- Finance costs were up \$17,916:

- Interest on the subordinated secured debentures (“Debentures”) was up by \$22,500 - \$3,500 of this increase was due to the fact that the Debentures were only outstanding for part of January 2010; and \$19,000 of this increase is due to an accrual recorded in 2011 for additional interest payments on the Debentures; terms of the Debentures are such that an extra quarterly interest payment is required if the Debentures are not repaid on certain dates (see note 12 – Long term debt to the Interim Consolidated Financial Statements);

- Interest on the bank operating loan was up \$24,063 as the Company used this facility to finance its increased working capital requirements; the bank operating loan was only used for a short period in 2010;

- The non cash accretion expense on the Debentures was lower by \$34,445; in the second quarter of 2011 the Company revised its estimate of when the Debentures will be repaid and accordingly the period over which the accretion expense is recorded was extended (see previous comment on Debenture interest and note 12 – Long term debt to the Interim Consolidated Financial Statements as at September 30, 2011);

- Interest on various other obligations was up \$5,798 from the same period in 2010.

Net income for the nine months ended September 30, 2011 was \$470,023 compared with a net loss of \$818,960 for the same period in 2010. The improvement of \$1,288,983 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 and oil and gas markets.

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
September 30	3,424,336	739,188	0.022	0.022
Total year to date	6,080,442	470,023	0.014	0.014
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 25 – Transition to IFRS in the Interim Consolidated Financial Statements as at September 30, 2011 for explanation of the IFRS adjustments.

F. Consolidated Statement of Financial Position

	September 30 2011	December 31 2010	Change
Total current assets	\$ 3,315,507	\$ 1,251,279	\$ 2,064,228
Total non current assets	<u>2,618,218</u>	<u>2,803,498</u>	<u>(185,280)</u>
Total Assets	\$ <u>5,933,725</u>	\$ <u>4,054,777</u>	\$ <u>1,878,948</u>
Current liabilities	\$ 2,709,420	\$ 1,174,771	\$ 1,534,649
Non current liabilities	<u>138,333</u>	<u>313,491</u>	<u>(175,158)</u>
Total liabilities	\$ <u>2,847,753</u>	\$ <u>1,488,262</u>	\$ <u>1,359,491</u>
Shareholders' equity	\$ <u>3,085,972</u>	\$ <u>2,566,515</u>	\$ <u>519,457</u>

Total current assets were \$3,315,507 at September 30, 2011 compared to \$1,251,279 at December 31, 2010. This increase of \$2,064,228 was due to the aggregate effect of the following:

- Cash in the bank was up \$12,809 (See the discussion in Section G - Consolidated Statement of Cash Flows);
- Restricted cash of \$39,862 was reported as at September 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 \$16,815 from the amount at December 31, 2010 and this is principally due to increased sales and the collection thereof in comparison to fourth quarter of 2010;
- Trade and other receivables were up by \$1,918,220 as a result of the increase in sales in the quarter as compared with the fourth quarter of 2010;
- Inventory was up \$81,447 due to purchases of the foaming agent, used in the Company's production process, in the first nine 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 \$34,937 and this is principally due to new project insurance in 2011 relative to U.S. projects.

Total non current assets were \$2,618,218 at September 30, 2011 compared to \$2,803,498 at December 31, 2010. This decrease of \$185,280 was due to the aggregate of the following:

- Property and equipment was down \$185,280 - additions to property and equipment were \$123,680, including \$91,715 in new finance leases, depreciation expense was \$244,055, 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 \$2,709,420 at September 30, 2011 compared to \$1,174,771 at December 31, 2010. This increase of \$1,534,649 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 down \$113,363 due to a change in the timing of processing of payments in September 2011 as compared to December 31, 2010;

- Bank operating loan was up \$321,517 as the Company needed to draw on its credit facility to finance the increased working capital requirements;

- Trade and other payables were up \$1,011,281 principally due to the increased business activity in the third 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 \$114,792; the current portion of the AFSC Loan 2 increased by \$20,671 (scheduled repayments are in August and February) and the Company's estimate of the portion of the Debentures (see note 12 – Long term debt to the Interim Consolidated Financial Statements) that will be repaid over the next 12 months from 3% of the cash revenues collected over this period, was increased by \$94,121 in 2011 as a result of the growth in contracted sales; and

- Current portion of finance lease obligations was up \$422 compared to the level as at December 31, 2010 due to new finance lease obligations in 2011 as partially offset by scheduled repayments in 2011 and the payout of finance lease obligations related to equipment that was sold in 2011 (see note 17 – Other income (expenses) to the Interim Consolidated Financial Statements).

Total non current liabilities were \$138,333 at September 30, 2011 compared to \$313,491 at December 31, 2010. This decrease of \$175,158 was due to the aggregate of the following:

- Long term debt was down by \$201,695; the Debentures were lower by \$161,930 as a result of repayments of \$94,640 and an increase in the portion classified as current of \$94,121 (see current portion of long term debt above) as partially offset by the accretion expense of \$26,831; the AFSC Loan 2 was down by \$39,765 due to repayments of \$19,094 and 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 up \$26,537 compared to the level as at December 31, 2010 due to new finance lease obligations entered into in 2011 of \$91,715 as partially offset by repayments of \$64,756, including scheduled repayments and the payout of finance lease obligations related to equipment that was sold in 2011 and the increase in the current portion as covered above under the current portion of finance lease obligations.

Shareholders' Equity was \$3,085,972 at September 30, 2011 compared to \$2,566,515 at December 31, 2010. This increase of \$519,457 is due to the following:

- No new share capital was issued in 2011;
- Contributed surplus increase is due the stock based compensation charge of \$49,434; and
- The deficit decreased by the income in the period of \$470,023.

See the Consolidated Statements of Shareholders' Equity included in the Interim Consolidated Financial Statements.

G. Consolidated Statement of Cash Flows

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

The cash position of the Company at September 30, 2011 was \$16,457 (consisting of cash in the bank) compared to a negative cash position of \$9,524 (consisting of cash in the bank of \$2,828 net of bank overdraft of \$12,352) at December 31, 2010.

The change in the cash position in the quarters ending September 30, 2011 and 2010 was an increase of \$181,581 in 2011 as compared to a decrease of \$23,334 in the same period of 2010. This change is outlined in the table below:

	Three Months Ended September 30		
	2011	2010	Change
Cash provided by (used in) operating activities	\$ (33,525)	\$ (388,834)	\$ 355,309
Cash provided by (used in) investing activities	(14,702)	(638)	(14,064)
Cash provided by (used in) financing activities	229,808	366,138	(136,330)
Increase (decrease) in cash	181,581	(23,334)	204,915
Cash, at beginning of period	(165,124)	13,810	(178,934)
Cash, at end of period	\$ 16,457	\$ (9,524)	\$ 25,981
Cash Position			
Cash in the bank	\$ 16,457	\$ 2,828	\$ 13,629
Bank overdraft	-	(12,352)	12,352
	\$ 16,457	\$ (9,524)	\$ 25,981

- Cash used by operating activities was \$33,525 in the third quarter of 2011 as compared to using \$388,834 in the same period in 2010, an improvement of \$355,309.

- The positive cash flow, before non cash working capital adjustments, was higher by \$864,623 compared with the same period of 2010. This increase was due to the improved earnings of \$817,274 compared to 2010 and an increase of \$47,349 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 partially offset by a higher negative adjustment for the net change in non-cash working capital items of \$509,314 as compared to 2010. This is primarily due to the significant increase in sales in the third quarter of 2011 compared to the same quarter in 2010 and the timing of the collection of the related trade receivables.

- Cash used in investing activities for the purchase of property and equipment was \$14,702 in 2011; in 2010 cash was used for additions to property and equipment of \$628.

- Cash provided by financing activities was \$229,808 in the third quarter of 2011 compared to \$366,138 in the same period in 2010.

- In 2011 the Company increased its bank operating loan by \$320,000 to finance the growth in working capital; made repayments of \$48,044 on the Debentures, \$19,094 on its AFSC loan and \$10,600 on finance lease obligations; and the restricted cash balance, in regard to the future repayments on the Debentures, increased by \$12,454 due to the collection of trade receivables in the quarter.

- In 2010, the Company increased its bank operating loan by \$435,000 to finance growth in working capital and the operating losses; made repayments of \$19,677 on the Debentures, \$45,998 on its AFSC loans and \$12,929 on finance lease obligations; and the restricted cash balance, in regard to the future repayments on the Debentures, reduced by \$9,742.

For the nine months ending September 30, 2011 compared to the nine months ending September 30, 2010

The cash position of the Company at September 30, 2011 was \$16,457 (consisting of cash in the bank) compared to a negative cash position of \$9,524 (consisting of cash in the bank of \$2,828 net of bank overdraft of \$12,352) at December 31, 2010.

The change in the cash position in the nine months ending September 30, 2011 and 2010 was an increase of \$126,172 in 2011 as compared to a decrease of \$119,834 in the same period of 2010. This change is outlined in the table below:

	Nine Months Ended September 30		
	2011	2010	Change
Cash provided by (used in) operating activities	\$ (221,902)	\$ (879,820)	\$ 657,918
Cash provided by (used in) investing activities	21,862	(20,549)	42,411
Cash provided by (used in) financing activities	326,212	780,535	(454,323)
Increase (decrease) in cash	126,172	(119,834)	246,006
Cash, at beginning of period	(109,715)	110,310	(220,025)
Cash, at end of period	\$ 16,457	\$ (9,524)	\$ 25,981
Cash Position			
Cash in the bank	\$ 16,457	\$ 2,828	\$ 13,629
Bank overdraft	-	(12,352)	12,352
	\$ 16,457	\$ (9,524)	\$ 25,981

- Cash used in operating activities was \$221,902 in the nine months of 2011 as compared to using \$879,820 in the same period in 2010, a decrease of \$657,918.

- The cash flow, before non cash working capital adjustments, was higher by \$1,383,222 compared with the same period of 2010. This improvement was due to the increase in the reported comprehensive income of \$1,288,983 compared to 2010 in addition to the increase of \$94,239 in the adjustment for non-cash items in the reported in 2011 compared to the same period in 2010.

- This increase in cash flow was partially offset by a higher adjustment for the net change in non-cash working capital items of \$725,304 as compared to 2010. This is primarily due to the significant increase in sales in the third 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 \$21,862 in 2011 which consisted of cash proceeds of \$53,827 on the sale of equipment less cash additions to property and equipment of \$31,965; in 2010 cash was used for additions to property and equipment of \$20,549.

- Cash provided from financing activities was \$326,212 in the nine months of 2011 compared to \$780,535 in the same period in 2010.

- In 2011 the Company used an additional \$321,517 of the bank operating loan and the issue of a promissory note to the AFSC for \$200,000 to finance working capital. Repayments on the Debentures were \$94,640, on its AFSC loan \$19,094 and on its finance lease obligations \$64,756. The restricted cash balance, in regard to the future repayments on the Debentures, increased by \$16,815 due to the collection of trade receivables in the quarter.

- In 2010, the Company increased its bank operating loan by \$450,000 to finance working capital growth and operating losses. The Company also 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 12 to the Interim Consolidated Financial Statements). In 2010, the Company made repayments of \$25,083 on the Debentures, \$45,998 on its AFSC loans and \$33,183 on its finance lease obligations. The restricted cash balance, in regard to the future repayments on the Debentures, increased by \$9,585 due to the collection of trade receivables in the quarter.

H. Liquidity and Capital Resources

Liquidity

At September 30, 2011, the Company had consolidated net working capital (current assets, excluding cash and restricted cash, less trade and other payables) of \$1,987,487 compared to \$964,164 at December 31, 2010. The increase of \$1,023,323 is itemized in the following table:

	September 2011	December 31 2010	Change
Working capital			
Trade and other receivables	\$ 2,682,956	\$ 764,736	\$ 1,918,220
Inventory	475,919	394,472	81,447
Prepaid expenses and deposits	100,313	65,376	34,937
	<u>3,259,188</u>	<u>1,224,584</u>	<u>2,034,604</u>
Less: Trade and other payables	<u>(1,271,701)</u>	<u>(260,420)</u>	<u>(1,011,281)</u>
Total Consolidated Net Working Capital	<u>\$ 1,987,487</u>	<u>\$ 964,164</u>	<u>\$ 1,023,323</u>

The increase in consolidated net working capital of \$1,023,323 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 September 30, 2011, the Company had a cash position of \$16,457 (consisting of cash in the bank) and consolidated net working capital of \$1,987,487.

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 qualified 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 September 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 September 30, 2011 and December 31, 2010, the Company had utilized \$832,865 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 September 30, 2011 (outlined previously), the availability of its operating line of credit and the \$1.7 million in sales contracts that are in place for sales in fourth quarter of 2011 should provide the necessary liquidity to carry the Company's operations through 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 24 - Capital management to the Interim Consolidated Financial Statements, was \$3,629,159 as compared to \$3,169,646 at December 31, 2010. The increase was principally the result of reported income of \$470,023 (see Section F. Consolidated Statement of Financial Position for details of the change in the managed capital).

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 September 30, 2011.

I. Off Balance Sheet Arrangements

There were no off balance sheet arrangements at September 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 (see note 12 – Long term debt to the Interim Consolidated Financial Statements). Scheduled interest payments and repayments on the subordinated secured debentures to these related parties in the quarter ending September 30, 2011 were \$29,017 (\$15,951 for the quarter ending September 30, 2010) and \$64,234 for the nine months ended September 30, 2010 (\$25,338 for the nine months ending September 30, 2010). Accrued interest on the subordinated secured debentures as at September 30, 2011 for these related parties was \$14,030 (\$5,290 as December 31, 2010). Restricted cash as at September 30, 2011 includes \$18,336 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 nine months ending September 30, 2011, the Company incurred legal fees from a firm which employs one of the directors of the Company in the amount of \$8,032 and \$12,584, respectively (\$nil and \$nil, respectively for the quarter and nine months ending September 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.

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 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 September 30, 2011 of \$832,865 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 September 30, 2011, 10 customers accounted for approximately 96% of trade receivables (at December 31, 2010, 6 customers accounted for approximately 92% of trade receivables). (See Note 5 – 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 September 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	\$ 2,295,986	\$ 114,825	\$ 221,192	\$ 13,492
30-60 days	296,796	301,776	-	51,573
61-90 days	979	311,993	-	48,070
Greater than 90 days	42,026	-	10,684	-
	<u>\$ 2,635,787</u>	<u>\$ 728,594</u>	<u>\$ 231,876</u>	<u>\$ 113,135</u>

The Company had no impaired trade receivables at September 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 September 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 9 – Bank operating loan to the Interim Consolidated Financial Statements). Based on these restrictions the actual operating line availability at September 30, 2011 was \$1,000,000 (December 31, 2010 \$693,000).

N. Disclosure of Outstanding Share Data

As at September 30, 2011 and November 22, 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 September 30, 2011</u>	<u>Outstanding as at November 22, 2011</u>
Voting or equity securities issued and outstanding	Unlimited Common Shares	33,465,994 Common Shares	33,465,994 Common Shares
Securities convertible or exercisable into voting or equity securities - stock options	Stock options to acquire up to 10% of outstanding Common Shares	Stock options to acquire 2,902,500 Common Shares at an exercise price at between \$0.10-\$0.15	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 a total of \$9.3 million of contracted sales which were scheduled for completion in 2011; however, management estimates that \$1.5 million of these sales may be pushed into 2012. The Company has no control over the scheduling of the projects, so it is possible that some additional sales could move to 2012, as well.

The diversification of the Company's markets, both in terms of market sector and geography, the establishment of a U.S. presence in 2011, the announcement of significant multi-year spending on Canadian oil sands projects on which the Company's product has been used in the past and the pending approval of the Company's product for the use for MTO projects in Ontario are factors that bode well for 2012 and future years.

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Form 51-102F1 - Management's Discussion & Analysis
For the Quarter and Nine Months Ended September 30, 2011
Appendix A – Forward Looking Statements

The forward-looking statements in the MD&A for the quarter ending September 30, 2011 are outlined below:

Page 15 – Liquidity and Capital Resources

The realization of the consolidated net working capital as at September 30, 2011 (outlined previously), the availability of its operating line of credit and the more than \$1.7 million in sales contracts that are in place for sales in the fourth quarter of 2011 should provide the necessary liquidity to carry the Company's operations through 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 21 – Outlook

The outlook for 2011 continues to look positive provided contracted sales are completed as scheduled. The Company has a total of \$9.3 million of contracted sales which were scheduled for completion in 2011; however, management estimates that \$1.5 million of these sales may be pushed into 2012. The Company has no control over the scheduling of the projects, so it is possible that some additional sales could move to 2012, as well.

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.

The diversification of the Company's markets, both in terms of market sector and geography, the establishment of a U.S. presence and development of relationships with large U.S. contractors in 2011, the announcement of significant multi-year spending on Canadian oil sands projects on which the Company's product has been used in the past and the pending approval of the Company's product for the use for MTO projects in Ontario are factors that bode well for 2012 and future years.

The foregoing statement contains a forward-looking statement which are based on management's assessment of the likelihood that its steps to diversify will result in less volatile sales, that its entry into the U.S. market in 2011 has established project credibility and relationships with large U.S. contractors which can result in new sales in this market, that the Company will again be able to achieve sales of its product for use on some of the announced Canadian oil sands projects and that the MTO will approve the use of the Company's products and this will result in new sale in this markets. Based on discussion with the MTO, management believes that product approval is pending and will be received. There are a number of risks that could affect these assumptions which include: market diversification does not reduce volatility, the U.S. market does not develop as management expects due to reduction in infrastructure spending or other factors, the success of marketing its product to oil sands projects is not repeated or the projects are delayed, the MTO product approval is not received or if received does not result in the new revenue that management is expecting.