

CEMATRIX CORPORATION
Consolidated Financial Statements
December 31, 2009

Management's Responsibility for Financial Reporting

To the Shareholders:

CEMATRIX CORPORATION

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

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

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

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

March 16, 2010

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

To the Shareholders of CEMATRIX CORPORATION:

We have audited the consolidated balance sheets of CEMATRIX CORPORATION as at December 31, 2009 and 2008 and the consolidated statements of loss and comprehensive loss, deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Meyer Norris Penny LLP

Calgary, Alberta

February 15, 2010

Chartered Accountants

CEMATRIX CORPORATION
Consolidated Balance Sheets

As at December 31
Canadian Dollars

	2009	2008
ASSETS		
Current Assets		
Cash (note 3)	\$ 110,310	\$ 481,802
Trade and other receivables (note 4)	179,347	1,059,049
Inventory (note 5)	440,719	279,323
Prepaid expenses and deposits (note 6)	59,596	228,401
Total Current Assets	789,972	2,048,575
Non Current Assets		
Property and equipment (note 7)	1,371,109	1,267,119
Intangibles (note 8)	465,116	569,882
Total Non Current Assets	1,836,225	1,837,001
Total Assets	\$ 2,626,197	\$ 3,885,576
LIABILITIES		
Current liabilities		
Trade and other payables (note 9)	\$ 231,319	\$ 257,670
Current portion of long term debt (note 10)	98,880	59,001
Current portion of capital lease obligations (note 11)	40,231	42,727
Total Current Liabilities	370,430	359,398
Non Current Liabilities		
Long term debt (note 10)	123,561	62,408
Capital lease obligations (note 11)	63,247	117,167
Total Non Current Liabilities	186,808	179,575
Total Liabilities	557,238	538,973
Commitments (note 26)		
Subsequent events (note 28)		
SHAREHOLDERS' EQUITY		
Share capital (note 12)	7,160,015	7,160,015
Contributed Surplus (note 13)	596,179	564,019
Deficit	(5,687,235)	(4,377,431)
Total Shareholders' Equity	2,068,959	3,346,603
Total Shareholders' Equity and Liabilities	\$ 2,626,197	\$ 3,885,576

Approved on behalf of the Board

Signed "Jeff Kendrick" Director

Signed "Steve Bjornson" Director

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

CEMATRIX CORPORATION
Consolidated Statements of Loss and Comprehensive Loss

*For the years ending December 31
Canadian Dollars*

	2009	2008
Revenue (note 14)	\$ 2,627,847	\$ 5,293,247
Cost of sales (note 15)	2,126,577	3,737,774
Gross margin	501,270	1,555,473
Operating Expenses		
General & administrative	644,852	697,499
Sales, marketing and engineering	872,147	934,056
Stock-based compensation (note 16)	32,160	49,027
Depreciation and amortization (note 17)	228,970	263,431
Total Operating Expenses	1,778,129	1,944,013
Operating loss	(1,276,859)	(388,540)
Finance costs (note 18)	(26,420)	(35,010)
Non-operating income (expenses) (note 19)	(6,525)	3,572
Net loss before income taxes	(1,309,804)	(419,978)
Income taxes (note 20)	-	-
Net loss and comprehensive loss for the year	\$ (1,309,804)	\$ (419,978)
Loss per common share (note 21)		
Basic	\$ (0.04)	\$ (0.01)
Fully Diluted	(0.04)	(0.01)
Weighted average number of common shares (note 21)		
Basic	33,465,994	33,465,994
Fully Diluted	33,465,994	33,465,994

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

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

	Share Capital	Warrants	Contributed Surplus	Deficit	Total
Balance at December 31, 2007	\$ 6,928,753	\$ 231,262	\$ 514,992	\$ (3,957,453)	\$ 3,717,554
Expiry of warrants	231,262	(231,262)	-	-	-
Stock based compensation (<i>note 16</i>)	-	-	49,027	-	49,027
Loss for the year				(419,978)	(419,978)
Balance at December 31, 2008	7,160,015	-	564,019	(4,377,431)	3,346,603
Stock-based compensation (<i>note 16</i>)	-	-	32,160	-	32,160
Loss for the year	-	-	-	(1,309,804)	(1,309,804)
Balance at December 31, 2009	\$ 7,160,015	\$ -	\$ 596,179	\$ (5,687,235)	\$ (2,068,959)

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

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

	2009	2008
Cash provided by (used in):		
Operating activities		
Net loss for the year	\$ (1,309,804)	\$ (419,978)
Add (deduct) non-cash items		
Depreciation and amortization (note 17)	228,970	263,431
Stock-based compensation expense (note 16)	32,160	49,027
Expense technology licenses (note 19)	27,718	-
Disallowed investment tax credits (note 8)	-	(24,762)
Gain on sale of fixed assets (note 7)	-	(658)
	(1,020,956)	(132,940)
Net change in non-cash working capital items (note 22)	860,760	295,850
	(160,196)	162,910
Investing activities		
Purchase of property and equipment (note 7)	(245,112)	(75,271)
Proceeds from sale of property and equipment (note 7)	-	50,000
Non-cash additions to technology (note 8)	-	(956)
	(245,112)	(26,227)
Financing activities		
Proceeds from new long term debt (note 10)	200,000	-
Repayment of long term debt (note 10)	(98,968)	(55,162)
Repayment of capital lease obligations (note 11)	(67,216)	(122,574)
	33,816	(177,736)
Decrease in cash	(371,492)	(41,053)
Cash, beginning of year	481,802	522,855
Cash, end of year (note 3)	\$ 110,310	\$ 481,802
Finance costs paid during the year	\$ 25,938	\$ 35,010

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

CEMATRIX CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and December 31, 2008

1. Corporate information

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

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

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

2. Significant accounting policies

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

Basis of consolidation

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

Cash

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

Inventory

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

Property and equipment

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

CEMATRIX CORPORATION
Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and December 31, 2008

2. Significant accounting policies (continued)

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

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

Change in accounting estimate

In the second quarter of 2009, the Company reviewed the estimated useful life of its dry mix processor equipment. As a result of this review, the estimated total output of each dry mix processor was reduced from original estimates, which results in more amortization in future periods. The impact in the year ended December 31, 2009 was to increase the amortization expense by \$6,777. This change in accounting estimate has been accounted for on a prospective basis. It is impracticable to estimate the impact on future periods as this will depend on the production levels for this equipment in that particular year.

Leases

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

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

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

Intangibles

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

CEMATRIX CORPORATION
Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and December 31, 2008

2. Significant accounting policies (continued)

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

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

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

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

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

Costs incurred under the Company's product development program are recognized as an intangible asset when the Company can demonstrate:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- Its intention to complete the intangible asset and its ability to use or sell the asset;
- Its ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditures during development.

Following initial recognition of the development expenditures as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

CEMATRIX CORPORATION
Notes to the Consolidated Financial Statements
For the years ended December 31, 2009 and December 31, 2008

2. Significant accounting policies (continued)

A summary of the accounting policies applied to the Company's intangibles is as follows:

	Patents	Trademarks & Technology	Product Development
Useful lives	Finite	Indefinite	Finite
Amortization method	Amortized on a straight line basis over the period of the patent	No amortization	Amortized over the period of expected future sales from the related project on a straight line basis
Internally generated or acquired	Acquired	Acquired	Internally generated

Impairment of Long-lived assets

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

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

Revenue recognition

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

Stock-based compensation

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

Earnings per common share

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

CEMATRIX CORPORATION
Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and December 31, 2008

2. Significant accounting policies (continued)

Future income taxes

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

Investment tax credits

The Company is entitled to refundable investment tax credits on certain research and product development costs incurred. There were no such costs incurred in 2009 or 2008. These credits are recognized against the related costs when there is reasonable assurance of their recovery.

Foreign currency translation

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

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

Measurement uncertainty

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

Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. Provisions are made for slow moving and obsolete inventory. Amortization of property and equipment, product development costs and patents is based on the estimated useful lives of these assets. Product development costs are deferred based on expected future benefits from these expenditures.

Estimated recoverable amounts for investment tax credits are accrued when management is reasonably assured that the related expenditures will be deemed eligible by the taxation authorities. Actual recoverable amounts could differ materially from these estimates. The impairment test for intangible assets is based on assumptions regarding future business volumes, sales prices, costs, cash flows, discount rates and other relevant assumptions.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in income in the periods in which they become known.

CEMATRIX CORPORATION
Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and December 31, 2008

2. Significant accounting policies (continued)

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

Financial Instruments

Section 3855 of the CICA Handbook requires the initial measurement of all financial instruments at fair value with classification into one of five categories; loans and receivables; assets held to maturity; assets available for sale; other financial liabilities; and held for trading.

Financial instruments that are classified as held-for-trading or available-for-sale are re-measured each reporting period at fair value with the resulting gain or loss recognized immediately as net income and other comprehensive income, respectively. All other financial instruments are initially accounted for at fair value and subsequently measured at amortized cost using the effective interest rate method with foreign exchange gain and losses recognized immediately as net income.

The Company has no derivatives or embedded derivatives in other financial instruments as of December 31, 2009 or December 31, 2008.

Transaction costs

The Company has a choice of recognizing transaction costs in net income when incurred versus adding transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability to the financial instrument's carrying cost. This guidance allows companies to choose different accounting policies for transaction costs of financial instruments that are not similar. It is the Company's policy to add transaction costs that are directly attributable to the acquisition or issuance of a financial asset and or liability to its fair value. These transaction costs are taken into income using the effective interest rate method over the life of the related debt. There were no transaction costs incurred by the Company during the year ended December 31, 2009 or the year ended December 31, 2008.

Comprehensive income

The components of other comprehensive income include unrealized gains and losses on financial assets classified as available-for-sale and the effective portion of cash flow hedges, if any. There were no such components to be recognized in comprehensive income upon transition or for the years ended December 31, 2009 and December 31, 2008. As the Company has no items of other comprehensive income or loss, the net earnings or loss for the periods are equivalent to comprehensive income.

Changes in accounting policies and disclosures

The accounting policies are consistent with those of the previous financial year except as noted below:

The CICA issued handbook section 3064, "Goodwill and Intangible Assets", which was adopted by the Company, effective January 1, 2009. The new section replaces section 3062 "Goodwill and Other Intangible Assets" and section 3450, "Research and Development Costs". Section 1000, Financial Statement concepts was also amended according to section 3064. This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented companies. The adoption has had no effect on the Company's current or prior years' consolidated financial statements.

In January 2009, the Emerging Issues Committee ("EIC") of the CICA issued EIC-173 "Credit Risk and the fair value of Financial Assets and Liabilities". It concluded that an entity's own credit risk and the credit risk of any counterparty should be taken into account in determining the fair value of financial instruments, including derivative instruments. The Company adopted this EIC but it had no effect on the Company's current or prior years' financial statements.

CEMATRIX CORPORATION
Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and December 31, 2008

2. Significant accounting policies (continued)

Accounting standards issued but not yet effective

The following is a list of CICA accounting standards that have been issued but are not yet effective:

In January 2006, the CICA adopted a strategic plan for the direction of accounting standards in Canada. Accounting standards for public companies in Canada are to converge with International Financial Reporting Standards (“IFRS”) by 2011. On April 7, 2008, the Accounting Standards Board issued its exposure draft proposing to incorporate IFRS for interim and annual financial statements for fiscal years beginning on or after January 1, 2011 with earlier adoption permitted. The Company has introduced the “Consolidated Statements of Changes in Equity” and expanded its note disclosure in its consolidated financial statements for the year ended December 31, 2009 to align more closely with the requirements of IFRS. The Company has developed a changeover plan to complete the transition to IFRS by January 1, 2011, including the preparation of required comparative information. The impact of IFRS on the Company’s Consolidated Financial Statements is not reasonably determinable at this time.

In January 2009, the CICA approved three new accounting standards for the CICA Handbook, including Section 1582, “Business Combinations”, Section 1601, “Consolidated Financial Statements”, and Section 1602, “Non-Controlling Interests”. All three standards are effective for fiscal years beginning on or after January 1, 2011. The Company does not expect any material impact from the adoption of these standards.

Section 1582 “Business Combinations” was updated and is effective for business combination for which the acquisition date is on or after January 1, 2011.

Section 1601, together with Section 1602 “Non-controlling Interests”, replaces former Section 1600 “Consolidated Financial Statements”. Section 1601 carries forward the requirements of Section 1600 for preparing consolidated financial statements after acquisition and some aspects of consolidation at the date of a business combination. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary subsequent to a business combination. Sections 1601 and 1602 apply retrospectively, with some exceptions, to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

In 2009 the CICA also issued exposure drafts (“ED’s”) to incorporate proposed changes to the existing International Accounting Standards (“IAS”) or to conform existing CICA Handbook sections to IAS. These include ED’s on Section 1000 “Financial Statements Concepts” and Section 3500 “Earnings per Share” as well as an ED to adopt the new consolidation standard, the final IAS standard on the derecognition of financial assets and financial liabilities and a new standard on fair value measurement proposed by the IASB.

3. Cash

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

CEMATRIX CORPORATION
Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and December 31, 2008

4. Trade and other receivables

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

		2009		2008
Trade receivables	\$	177,035	\$	1,043,012
Less allowance for doubtful accounts		-		(348)
		177,035		1,042,664
Other receivables		2,312		16,385
	\$	179,347	\$	1,059,049

Trade receivables are non-interest bearing and are generally on 30 day terms subject to standard ten percent construction holdbacks on most of its sales over \$100,000. The Company has historically experienced minimal customer defaults on its trade receivables including holdbacks. Holdbacks are generally collectible forty-five days after completion of the work performed by the Company, however holdbacks can be outstanding much longer, if the holdback release is tied to the completion of the entire project by the general contractor. The Company is normally a subcontractor to the general contractor and only completes a portion of the total work to be completed by the general contractor and accordingly certain holdbacks can be outstanding for up to a year or more. The aging of the trade receivables that were past due but not impaired was as follows as of December 31:

	Trade Receivables Aging		Holdback Amounts Included	
	2009	2008	2009	2008
1-30 days	\$ 91,815	\$ 90,833	-	\$ 9,083
30-60 days	79,452	201,854	76,709	54,641
61-90 days	5,677	472,604	5,677	91,201
Greater than 90 days	91	277,721	91	272,573
	\$ 177,035	\$ 1,043,012	\$ 82,477	\$ 427,498

5. Inventory

Inventory consists of the following components as at December 31:

		2009		2008
Raw materials (principally foaming agent)	\$	428,094	\$	255,732
Spare parts		12,358		16,816
Marketing material		267		6,775
	\$	440,719	\$	279,323

Inventory expensed as part of cost of sales was \$93,520 and \$140,728 respectively for the years ended December 31, 2009 and 2008.

CEMATRIX CORPORATION
Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and December 31, 2008

6. Prepaid expenses and deposits

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

	2009	2008
Prepaid insurance	\$ 10,420	\$ 1,782
Equipment deposits	2,458	3,420
Rental deposits	43,492	41,992
Credit for returned raw materials	-	167,528
Other	3,226	13,679
	\$ 59,596	\$ 228,401

In 2008, the Company reached an agreement to return defective foaming agent inventory and received a credit towards future purchases. The credit was fully applied to shipments of material recorded in 2009.

7. Property and equipment

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

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

	Cost	Accumulated Amortization		2008 Net Book Value
<i>Owned</i>				
Automobiles	\$ 59,105	\$ 45,688	\$	13,417
Leasehold improvements	55,884	40,127		15,757
Computer equipment and software	109,260	87,756		21,504
Equipment and cellular material processors	1,001,999	694,866		307,133
Equipment – dry mix processors	793,443	70,371		723,072
Furniture and fixtures	26,873	18,527		8,346
	2,046,564	957,335		1,089,229
<i>Leased</i>				
Computer equipment and software	23,649	10,140		13,509
Equipment	182,574	18,193		164,381
	206,223	28,333		177,890
	\$ 2,252,787	\$ 985,668	\$	1,267,119

CEMATRIX CORPORATION
Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and December 31, 2008

7. Property and equipment (continued)

The movement in the carrying amounts for each class of property and equipment for the years ended December 31, 2009 and 2008 is outlined below:

	2009	2008
Automobiles		
Carrying amount at the beginning of the year	\$ 13,417	\$ 19,631
Additions	1,464	1,361
Disposal	-	(2,117)
Depreciation	(4,281)	(5,458)
Carrying amount at the end of the year	\$ 10,600	\$ 13,417
Leasehold improvements		
Carrying amount at the beginning of the year	\$ 15,757	\$ 566
Additions	-	16,911
Depreciation	(1,718)	(1,720)
Carrying amount at the end of the year	\$ 14,039	\$ 15,757
Computer equipment and software		
Carrying amount at the beginning of the year	\$ 21,504	\$ 22,362
Additions	-	6,883
Reclassification	1,927	-
Depreciation	(6,756)	(7,741)
Carrying amount at the end of the year	\$ 16,675	\$ 21,504
Equipment and cellular material processors		
Carrying amount at the beginning of the year	\$ 307,133	\$ 327,654
Additions	228,448	16,086
Disposals	-	(49,342)
Reclassification	30,365	87,508
Depreciation	(90,343)	(74,773)
Carrying amount at the end of the year	\$ 475,603	\$ 307,133
Equipment – dry mix processors		
Carrying amount at the beginning of the year	\$ 723,072	\$ 715,609
Additions	15,200	24,490
Depreciation	(13,102)	(17,027)
Carrying amount at the end of the year	\$ 725,170	\$ 723,072
Furniture and fixtures		
Carrying amount at the beginning of the year	\$ 8,346	\$ 9,186
Additions	-	1,108
Depreciation	(1,669)	(1,948)
Carrying amount at the end of the year	\$ 6,677	\$ 8,346
Summary owned		
Carrying amount at the beginning of the year	\$ 1,089,229	\$ 1,095,008
Additions	245,112	66,839
Disposals	-	(51,459)
Reclassification	32,292	87,508
Depreciation	(117,869)	(108,667)
Carrying amount at the end of the year	\$ 1,248,764	\$ 1,089,229

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7. Property and equipment (continued)

		2009		2008
Computer equipment and software				
Carrying amount at the beginning of the year	\$	13,509	\$	18,423
Additions		-		721
Reclassification		(1,927)		-
Depreciation		(3,748)		(5,635)
Carrying amount at the end of the year	\$	7,834	\$	13,509
Equipment				
Carrying amount at the beginning of the year	\$	164,381	\$	38,166
Additions		10,800		231,916
Reclassification		(30,365)		(87,508)
Depreciation		(30,305)		(18,193)
Carrying amount at the end of the year	\$	114,511	\$	164,381
Summary leased				
Carrying amount at the beginning of the year	\$	177,890	\$	56,589
Additions		10,800		232,637
Reclassification		(32,292)		(87,508)
Depreciation		(34,053)		(23,828)
Carrying amount at the end of the year	\$	122,345	\$	177,890

The loans with the Agricultural Financial Services Corporation are secured by equipment and general Security Agreement (Note 10).

In 2009, the Company adjusted leasehold improvements to remove the costs related to expired leases with an accumulated cost of \$38,111 and accumulated amortization of \$38,111.

8. Intangibles

The components of intangibles at December 31 are outlined below:

		<i>Cost</i>		<i>Accumulated Amortization</i>		<i>2009 Net Book Value</i>
Product development costs	\$	1,651,852	\$	1,651,852	\$	-
Patents		90,000		90,000		-
Trademarks *		12,863		3,858		9,005
Technology *		511,110		54,999		456,111
	\$	2,265,825	\$	1,800,709	\$	465,116

* Pursuant to a change in the CICA accounting standards in 2003, intangibles with an indefinite life are no longer amortized but are subject to an impairment test at least annually. Prior to 2003, intangibles with an indefinite life were amortized.

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and December 31, 2008

8. Intangibles (continued)

	Cost	Accumulated Amortization	2008 Net Book Value
Product development costs	\$ 1,651,852	\$ 1,583,804	\$ 68,048
Patents	90,000	81,000	9,000
Trademarks	12,863	3,858	9,005
Technology	538,828	54,999	483,829
	\$ 2,293,543	\$ 1,664,804	\$ 569,882

The movement in the carrying amounts for each class of intangibles for the year ended December 31, 2008 and 2009 is outlined below:

		<i>Product development costs</i>	<i>Patents</i>	<i>Trademarks</i>	<i>Technology</i>	<i>Total</i>
Carrying value at						
December 31, 2008	\$	68,048	\$ 9,000	\$ 9,005	\$ 483,829	\$ 569,882
Amortization		(68,048)	(9,000)	-	-	(77,048)
Expense licenses		-	-	-	(27,718)	(27,718)
Carrying value at						
December 31, 2009	\$	-	\$ -	\$ 9,005	\$ 456,111	\$ 465,116
Carrying value at						
December 31, 2007	\$	165,222	\$ 18,000	\$ 9,005	\$ 482,873	\$ 675,100
Disallowed ITC's		24,762	-	-	-	24,762
Other		-	-	-	956	956
Amortization		(121,936)	(9,000)	-	-	(130,936)
Carrying value at						
December 31, 2008	\$	68,048	\$ 9,000	\$ 9,005	\$ 483,829	\$ 569,882

During 2009, the Company expensed a technology license that no longer had value. (Note 19).

During 2008, \$24,762 of previously recorded Investment Tax Credits ("ITC's") receivable were disallowed by the Canada Revenue Agency. This amount was added to the gross cost of Product Development Costs and was fully amortized in 2008.

9. Trade and other payables

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

	2009	2008
Trade payables	\$ 88,148	\$ 82,513
Accruals	118,744	135,919
Payroll remittance and goods & services tax	24,427	39,238
	\$ 231,319	\$ 257,670

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10. Long term debt

Long term debt at December 31 2009 and 2008 is outlined below:

	<i>Maturity</i>	<i>Interest rate</i>	<i>2009</i>	<i>2008</i>
Agricultural Financial Services Corporation – loan 1	Dec. 2010	6.54%	\$ 62,633	\$ 121,409
Agricultural Financial Services Corporation – loan 2	Dec. 2013	5.82%	159,808	-
			222,441	121,409
Less current portion			(98,880)	(59,001)
			\$ 123,561	\$ 62,408

(See Note 28 (a) Subsequent events)

Loan 1

During 2005, the Company borrowed \$300,000 from the Agricultural Financial Services Corporation (“AFSC”) (“AFSC Loan 1”) to be used to complete the acquisition of equipment with an original cost of \$571,500. The Company renewed this loan in December of 2008 for an additional two year period. The renewal term includes monthly principal and interest payments of \$10,974 commencing July 1, 2009. Certain of the executive managers together with a consultant/shareholder of the Company have each provided personal guarantees, which are covered by life insurance.

Loan 2

During 2009, the Company borrowed \$200,000 from the AFSC (“AFSC Loan 2”) to be used for the acquisition and construction of equipment at a cost of \$200,000. The term includes monthly principal and interest payments of \$7,565 commencing July 1, 2009.

The monthly payments on the AFSC loans run from July to December each year. The loans are secured by equipment and a General Security Agreement. The net book value of the equipment used as security at December 31, 2009 is \$1,248,764 (December 31, 2008 - \$1,089,229).

Repayments of long term debt for the year ended December 31, 2009 and 2008 were \$98,968 and \$55,162, respectively. Long term debt repayments for the years following the year ended December 31, 2009 are as follow: 2010 - \$98,880; 2011 - \$38,369; 2012 - \$40,651; 2013 - \$44,541.

Finance costs during the year include interest on the AFSC loans in the amount of \$13,904 (December 31, 2008 \$12,292).

11. Capital lease obligations

Capital leases, which relate to the purchase of equipment, bear interest at 5.75% to 24.8%, are repayable in blended monthly payments and mature from May 2009 to June 2013. The annual future commitments under the leases are as follows:

2010	\$	47,623
2011		32,766
2012		31,833
2013		4,600
		116,822
Less imputed interest		13,344
		103,478
Current portion		40,231
	\$	63,247

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For the years ended December 31, 2009 and December 31, 2008

11. Capital lease obligations (continued)

Repayment of capital lease obligations for the year ended December 31, 2009 was \$67,216 (December 31, 2008 - \$122,574).

New capital lease obligations in the year ended December 31, 2009 were \$10,800 (December 31, 2008 - \$222,088).

Finance costs for the year includes interest on capital lease obligations in the amount of \$11,820 (December 31, 2008 - \$17,128).

12. Share capital

(a) Authorized

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

(b) Issued

	<i>Number Of Shares</i>	<i>2009 \$ Amount</i>	<i>Number Of Shares</i>	<i>2008 \$ Amount</i>
Common shares, beginning of year	33,465,994	\$7,160,015	33,465,994	\$6,928,753
Expiry of share purchase warrants	-	-	-	231,262
Common shares, end of year	33,465,994	\$7,160,015	33,465,994	\$7,160,015

(c) Common shares

During the years ended December 31, 2009 and 2008 no common shares were issued by the Company.

(d) Share acquisition loans

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

13. Contributed surplus

The following table summarizes the changes in contributed surplus during the year ended December 31, 2009 and the year ended December 31, 2008:

	<i>2009</i>		<i>2008</i>
Balance, beginning of year	\$ 564,019	\$	514,992
Stock-based compensation expense (note 16)	32,160		49,027
Balance, end of year	\$ 596,179	\$	564,019

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For the years ended December 31, 2009 and December 31, 2008

14. Revenue

Revenue consists of the following components for the years ended as at December 31, 2009 and 2008:

	2009		2008
Manufacture of cellular concrete	\$ 2,539,119	\$	5,293,247
Equipment rental	54,627		-
Other	34,101		-
	\$ 2,627,847	\$	5,293,247

For the year ended December 31, 2009, 3 customers accounted for collectively 58% of total revenue (year ended December 31, 2008 3 customers accounted for 10% or over each and collectively 69% of total revenue).

15. Cost of Sales

Cost of sales consists of the following components for the years ended as at December 31, 2009 and 2008:

	2009		2008
Manufacture of cellular concrete			
Materials	\$ 1,049,860	\$	2,257,620
Direct labour	398,144		618,884
Variable expenses	267,354		470,655
Fixed overhead	378,346		390,615
	2,093,704		3,737,774
Equipment rental	4,263		-
Other	28,610		-
	\$ 2,126,577	\$	3,737,774

16. Stock-based compensation

The Company has an option plan for the issue of up to 10% of the common shares of the Company. All options that are outstanding will expire upon maturity, or earlier, if the optionee ceases to be a director, officer, employee or contractor or there is a merger, amalgamation or change in control of the Company. The purpose of the option plan is to reward and retain directors, management and contractors important to the continued operation and growth of the Company. On August 13, 2008, a total of 600,000 options were issued to four new directors and on December 1, 2008, a total of 300,000 options were issued to the chief financial officer. On June 17, 2008, 200,000 options held by the former President were forfeited. On September 15, 2008, 638,687 options held by former directors expired, on October 2, 2008, 107,500 options held by a former employee expired, on November 30, 2008, 200,000 options held by the former president expired and on September 17, 2009, 200,000 options held by a former director expired. At December 31, 2009 a total of 2,370,825 stock options to purchase common shares (December 31, 2008: 2,570,825) were issued and are outstanding to directors, consultants and managers of the Company. At December 31, 2009, the Company had 975,744 shares reserved for the issuance of stock options (December 31, 2008 - 775,744).

All options issued to date vested at the date of grant or have vested, with the exception of the 600,000 options granted to directors on August 13, 2008 (200,000 of these options vested at the date of grant, 200,000 vest at the end of first anniversary and 200,000 on the second anniversary) and the 300,000 options granted to the chief financial officer on December 1, 2008 (100,000 of these vested at the date of grant, 100,000 vest at the end of the first anniversary and 100,000 on the second anniversary).

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16. Stock-based compensation (continued)

The following table summarizes the options to acquire common shares outstanding as at December 31, 2009:

<i>Grant Date</i>	<i>Number Options</i>	<i>Exercise Price</i> \$	<i>Weighted average</i> <i>remaining life (years)</i>	<i>Expiry Date</i>
August 5, 2005	108,325	0.30	0.59	August 5, 2010
April 11, 2006	1,150,000	0.30	1.28	April 11, 2011
June 1, 2007	100,000	0.30	2.42	June 1, 2012
July 27, 2007	112,500	0.35	2.57	July 27, 2012
August 13, 2008	600,000	0.30	3.62	August 13, 2013
December 1, 2008	300,000	0.10	3.92	December 1, 2013
	2,370,825			

(See Note 28 (b) Subsequent events)

The following table summarizes the changes in options during the year ended December 31, 2009 and the year ended December 31, 2008:

	<u>2009</u>		<u>2008</u>	
	<i>Number of</i> <i>Options</i>	<i>Weighted</i> <i>average price</i>	<i>Number of</i> <i>Options</i>	<i>Weighted</i> <i>average price</i>
Outstanding at beginning of year	2,570,825	\$0.28	2,817,012	\$0.30
Granted	-	-	900,000	0.23
Forfeited	-	0.30	(200,000)	0.30
Expired	(200,000)	-	(946,187)	0.30
Outstanding at end of period	2,370,825	0.28	2,570,825	0.28
Exercisable at end of year	2,070,825	\$0.27	1,970,825	\$0.29

There are 300,000 options that have not vested as at December 31, 2009 (December 31, 2008 - 600,000 options).

During the year ended December 31, 2009, the Company granted nil (December 31, 2008 – 900,000) options to directors and management. Stock-based compensation of \$32,160 (December 31, 2008 - \$49,027) was calculated using the Black-Scholes option pricing model and recognized as an expense during the year ended December 31, 2009. Stock-based compensation expense has no current period impact on the Company's cash position.

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

	2009	2008
Estimated per share fair value per option	-	\$0.10-0.15
Risk-free interest rate	-	1.7-4.6%
Expected life	-	5 years
Expected volatility in stock price	-	198-242%
Expected annual dividend yield	-	0%
Estimated forfeiture rate	-	10-25%

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17. Depreciation and amortization

The depreciation and amortization costs incurred for the years ended December 31, 2009 and 2008 are as follows:

	<i>2009</i>	<i>2008</i>
Property and equipment	\$ 151,922	\$ 132,495
Intangibles	77,048	129,936
	\$ 228,970	\$ 263,431

18. Finance costs

The finance costs incurred for the years ended December 31, 2009 and 2008 are as follows:

	<i>2009</i>	<i>2008</i>
AFSC loans	\$ 13,904	\$ 12,294
Finance leases	11,820	17,128
Operating line of credit	33	1,122
Other	663	4,466
	\$ 26,420	\$ 35,010

19. Non-operating income (expenses)

Other non-operating income and (expenses) incurred for the years ended December 31, 2009 and 2008 are as follows:

	<i>2009</i>	<i>2008</i>
Interest income	\$ -	\$ 4,806
Foreign exchange	(407)	(1,892)
Other	21,600	-
Expense technology license (see Note 8)	(27,718)	-
Gain on sale of fixed asset	-	658
	\$ (6,525)	\$ 3,572

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For the years ended December 31, 2009 and December 31, 2008

20. Income taxes

The income tax expense differs from the amount computed by applying the statutory provincial and federal income tax rates to the respective year's income (loss) before income taxes. The differences for the year ended December 31, 2009 and year ended December 31, 2008 result from the following items:

	2009	2008
Net income (loss) before income taxes	\$ (1,309,804)	\$ (419,978)
Expected income tax rate	29.5%	30.5%
Expected income tax expense (recovery)	(386,392)	(128,093)
Differences resulting from:		
Stock-based compensation	9,487	14,953
Change in enacted rate and other	230,793	55,116
Tax effect of loss expiry	2,391	4,826
Change in valuation allowance	143,721	53,198
Provision for income taxes	\$ -	\$ -

Future income tax assets and liabilities are recognized for temporary differences between the carrying amount of the assets and liabilities for accounting and tax purposes. The tax effects of deductible and taxable temporary differences that give rise to the Company's future tax assets and liabilities are as follows:

	2009	2008
Future tax assets		
Non-capital loss carry forwards	\$ 1,475,077	\$ 1,324,910
Cumulative eligible capital	76,455	96,438
Capital lease obligations	26,904	48,768
Other	12,293	28,842
	1,590,729	1,498,958
Future tax liabilities		
Property and equipment	95,289	72,255
Intangibles	98,830	153,059
Product development costs	-	20,755
	194,119	246,069
Valuation allowance	(1,396,610)	(1,252,889)
Future income tax asset (liability)	\$ -	\$ -

The Company had non-capital loss carry forwards which expire as follows: 2010 - \$998,415; 2014 - \$1,332,479; 2015 - \$479,662; 2026 to 2029 - \$2,815,537.

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21. Loss per share

The number of shares included in the computation of basic and diluted earnings per share at December 31, 2009 and December 31, 2008 are as follows:

		2009		2008
Weighted average shares outstanding - basic	\$	33,465,994	\$	33,465,994
Effect of stock options		-		-
Effect of share purchase warrants		-		-
	\$	33,465,994	\$	33,465,994

The stock options for the year ended December 31, 2009 and the stock options and share purchase warrants for the year ended December 31, 2008 have no dilutive effect as the Company realized a net loss during the year.

22. Change in non cash working capital

The changes in non cash working capital items are outlined below for the years ended December 31, 2009 and 2008.

		2009		2008
Trade and other receivables	\$	879,702	\$	582,908
Inventory		(161,396)		57,414
Prepaid expenses and deposits		168,805		(188,000)
Trade and other payables		(26,351)		(156,472)
	\$	860,760	\$	295,850

23. Related party transactions

In 2008, the Company incurred legal fees from a firm which employs two of the former directors of the Company. These related party transactions were in the normal course of operations and measured at the exchange amount. The amount incurred while these individuals were directors of the Company was \$20,527. The two directors resigned on June 17, 2008 and transactions with this firm subsequent to that date have been at arm's length.

24. Financial Instruments

The Company has classified its financial instruments under the following classifications

- (i) Cash is classified as financial assets held for trading;
- (ii) Trade and other receivables are classified as loans and receivables;
- (iii) Trade and other payables and long term debt are classified as other financial liabilities.

The fair values of cash, trade and other receivables and trade and other payables approximate their carrying values due to the relatively short periods to maturity of these instruments. The fair value of fixed interest rate long term debt is determined by comparing the floating interest rate that the Company could obtain in the market for debt with similar terms to its fixed rate debt. The fair value of long term debt approximate its carrying value.

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24. Financial Instruments (continued)

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 interest rate fluctuation. The Company did not have balances outstanding for this credit facility at December 31, 2009 and December 31, 2008 and is not significantly exposed to interest rate risk at this time.

(b) Credit Risk

Financial instruments that subject the company to credit risk consist primarily of trade accounts receivable. The Company manages credit risk using credit approval and monitoring practices. At December 31, 2009, 3 customers and at December 31, 2008 5 customers accounted for approximately 95% and 90% respectively of accounts receivable. (See Note 4 for details of credit policy and aging of outstanding trade receivables at December 31, 2009 and 2008).

(c) Liquidity Risk

Liquidity risk management involves maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit lines. Due to the nature of the business, the Company aims to maintain flexibility in funding by keeping committed credit lines available and limiting the investment of available cash to short term risk free interest bearing deposits. At December 31, 2009 and December 31, 2008 the Company had access to \$1,500,000 in bank operating line financing subject to advance restrictions on the level of receivables and inventories, of which \$Nil has been drawn on these dates. Based on those restrictions the actual operating line availability at December 31, 2009 was \$318,000 (December 31, 2008 \$662,000).

25. Capital management

The Company's current objective when managing capital is to increase the Company's capital through growth in earnings and to re-invest the earnings generated to facilitate the continued growth in the Company, in order to provide an appropriate rate of return to shareholders in relation to the risks underlying the Company's assets.

Management defines capital as the Company's total shareholders' equity and the Agricultural Financial Services loans payable. The Board of Directors does not establish a quantitative return on capital for management, but rather promotes year over year sustainable profitable growth. The consolidated capital structure of the Company at December 31, 2009 and 2008 is as follows:

	2009	2008
Long term debt (Note 10)	\$ 222,441	\$ 121,409
Finance lease obligations (Note 11)	103,478	159,894
Total Debt	325,919	281,303
Shareholders' Equity	2,068,959	3,346,603
Company's Managed Capital	\$ 2,394,878	\$ 3,627,906

(See Note 28 (a) Subsequent events)

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25. Capital management (continued)

The Company has a demand operating facility of \$1,500,000. Under the facility, the bank will advance up to a maximum of 75% of total receivables less than ninety days outstanding at the end of each month, net of any priority claims plus 50% of inventories up to a maximum of \$250,000. Interest on the facility is at prime plus 2.25%. The security provided includes a General Security Agreement over all of the assets of the Company. Under the facility, the Company is required to maintain a debt to tangible net worth ratio of less than 1.75:1. The loan balance at December 31, 2009 and 2008 was \$Nil and the Company is in compliance with the terms of the covenants. Finance expenses include interest on operating loans during the year in the amount of \$33 (December 31, 2008 - \$1,122).

26. Commitments

As at December 31, 2009, the Company had operating lease commitments for vehicles, equipment and facilities for the twelve months as follows: 2010 - \$196,689; 2011 - \$186,747; 2012 - \$179,750; 2013 - \$179,750; 2014 - \$179,750.

Operating lease payments recognized as an expense was \$274,700 for the year ended December 31, 2009 (\$233,719 for the year ended December 31, 2008)

27. Comparative figures

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

28. Subsequent events

(a) Issue of debenture and warrants

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

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

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28. Subsequent events (continued)

Each Warrant issued pursuant to the Private Placement shall be exercisable for a term of three years at an exercise price of \$0.15. If the average closing trading price of the Common Shares on the TSX Venture Exchange Inc. or other recognized exchange is equal to or greater than \$0.30 for a period of 60 consecutive days, the Company shall have an option at its sole discretion to provide a written notice to accelerate the expiry (the "Acceleration Notice") advising the Warrant holders that they shall have 21 days following the date of the Acceleration Notice to exercise their Warrants and any unexercised Warrants after the expiry of the 21st day following the Acceleration Notice shall expire with no further rights and privileges attached thereto. The Warrants are subject to a hold period under applicable securities laws until May 23, 2010.

The proceeds from the Private Placement will be used to support the working capital position of the Company and for capital additions.

Certain employees and their relatives subscribed for 16 Units.

(b) Investor and financial relations agreement

In February 2010 the Company entered into an agreement with The Howard Group to provide investor and financial relation services to the Company. The Howard Group has provided comprehensive investor and financial relations, business development solutions, in-depth strategic planning and financing services to public companies since 1988.

Pursuant to the Agreement, The Howard Group has been retained by the Company for a period of eighteen months and will receive remuneration in the amount of \$7,000 per month and will be reimbursed for all approved expenses.

In addition, on February 5, 2010, the Company granted stock options (the "Options") to the Howard Group enabling it to acquire 300,000 common shares in the capital of the Company at an exercise price of \$0.12. The stock options vest as to one quarter every three months from the date of grant and expire three years from the date of grant.