

**CEMATRIX CORPORATION**  
**Management's Discussion and Analysis**  
*Quarter Ended March 31, 2010*

Date Completed: May 13, 2010

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

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

*The following is the management's discussion and analysis ("MD&A") of CEMATRIX Corporation ("CEMATRIX" or the "Company") for the quarter ended March 31, 2010. This MD&A should be read in conjunction with the unaudited consolidated financial statements of the Company for the quarter ended March 31, 2010 and the related notes thereto and the audited consolidated financial statements and MD&A of the Company for the year ended December 31, 2009 and related notes thereto. The consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). All dollar figures included therein and in this MD&A are in Canadian dollars.*

*Additional information relevant to the Company's activities can be found on SEDAR at [www.sedar.com](http://www.sedar.com). CEMATRIX is listed on the TSX Venture Exchange under the trading symbol "CVX".*

The Audit Committee of the Company reviewed and recommended for approval by the Board of Directors of the Company the unaudited consolidated financial statements and MD&A for the quarter ended March 31, 2010 and the Board of Directors of the Company has reviewed and approved them on May 13, 2010.

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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, 2009, 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 ended March 31, 2010, the Company's financial condition as at March 31, 2010 and its future prospects.

## **B. Overall Performance and First Quarter Highlights**

- The first quarter of 2010 was a record first quarter for the Company in terms of sales and sales volumes. In the quarter sales more than doubled to \$816,145 from the \$345,962 reported in the same period of 2009. The loss for the quarter was \$213,924 down by almost two thirds from the loss in the comparative period of 2009 of \$615,394.

- The first quarter sales in 2010 benefitted from a large tunnel project in Ontario that was completed near the end of March 2010.

- The infrastructure market for the Company's products continues to grow, as the Company focuses its marketing and education process in this area. Various governmental spending programs on road and other infrastructure projects, where the Company's products are used, have increased in 2010 relative to 2009. The work, which the Company has done in developing its infrastructure market in Ontario and Western Canada, is resulting in new opportunities. In fact, most of the projects on which the Company is now supplying quotes in 2010 are in the infrastructure market as opposed to the oil and gas sector of Alberta as was the case in past years.

- The work in the oil and gas sector, and in particular on oil sands projects, has not recovered to the levels experienced in 2007 and 2008. A number of projects have been re-started and new projects have been announced, but these projects are not at the stage where the use of the Company's products may be required. Whether the company's products are used on these projects remains to be determined.

- The volume of project quotes that the Company is involved with has increased substantially from last year at this time. The Company is currently actively involved in close to 100 quotes for projects scheduled for 2010 as compared to less than 25 last year at this time. Whether these projects result in work for the Company is dependent on a number of factors, most of which are beyond the control of management. One of the realities of the Company's business is that projects are most often not awarded until very close to when the work is scheduled to commence.

- The Company continues to focus on managing its costs and cash flow. The Company's staff remains on reduced work hours and all discretionary spending continues to be curtailed.

- In early March 2010 the Company received notice from the Government of British Columbia that its product had been accepted as a recognized lightweight fill product and is now listed in the province's approved product list. The application with the Ministry of Transportation of Ontario (the "MTO") for approval of the use of CEMATRIX cellular concrete as light weight material on projects for the MTO was reviewed and the product was conditionally approved in late March, subject to an engineering review of product applications, which is currently underway, and the review of the results of projects completed and to be completed.

- In the quarter the Company successfully completed the issue of debentures and share purchase warrants for \$500,000 (the "Private Placement"). The proceeds from this issue are being used to help finance working capital and limited capital spending.

- During the quarter, the Company hired the Howard Group, one of Canada's leading investor relation firms, to provide investor and financial relations to the Company. The Howard group were instrumental in putting together the Private Placement and as well will be active in assisting the Company to increase investor awareness.

- In mid March, the Company appointed Mr. Minaz Lalani as a director of the Company. Mr. Lalani was previously a director of the Company during the capital pool company stage of the Company, from March 2005 to April 2006, but had to resign because of other commitments. Mr. Lalani is an actuary and recently retired from Towers Perrin, where he spent 28 years as a principal and consulting actuary.

### C. Results of Operations for Quarter Ending March 31, 2010

	Three Months Ended March 31		
	2010	2009	Change
Revenue	\$ <u>816,145</u>	\$ <u>345,962</u>	\$ <u>470,183</u>
Gross margin	\$ <u>217,782</u>	\$ <u>(70,525)</u>	\$ <u>288,307</u>
Operating expenses	<u>398,216</u>	<u>537,801</u>	<u>(139,585)</u>
Operating loss	<u>(180,434)</u>	<u>(608,326)</u>	<u>427,892</u>
Finance costs and other items	<u>(33,490)</u>	<u>(7,068)</u>	<u>(26,422)</u>
Net loss	\$ <u>(213,924)</u>	\$ <u>(615,394)</u>	\$ <u>401,470</u>
Fully diluted earnings per common share	\$ <u>(0.006)</u>	\$ <u>(0.018)</u>	\$ <u>0.012</u>

Total revenue for the quarter ended March 31, 2010 was \$816,145 as compared to \$345,962 for the same quarter in 2009, an increase of \$470,183 or 136%. Sales volumes were up by 184%. The increase in sales is principally the result of a large tunnel project in Ontario which provided over \$490,000 in sales in the first quarter of 2010.

The gross margin on sales was \$217,782 or 26.7 % in 2010 as compared to a negative margin of \$70,525 in 2009. This improvement is due to the increased sales combined with lower labour and fixed costs which resulted from the continuation of the Company's cost reduction initiatives introduced in the latter part of the first quarter of 2009.

Total operating expenses for the quarter ended March 31, 2010 were \$398,216 as compared to \$537,801 in the same quarter of 2009. This \$139,585 or 26 % decrease is due to the following:

- General and administrative costs were down by \$37,066 – salaries and associated benefits were down \$16,952 due to the effect of a reduction of salaries and work hours that was put in place after March 1, 2009; other costs were down by \$20,114 due to cost reduction efforts and constraints put in place by the Company;
- Sales, marketing and engineering costs decreased by \$105,733 – salaries and associated benefits decreased by \$63,659 – this was due to a reduction in staff and the effect of a reduction of salaries and work hours that was put in place after March 1, 2009; marketing program costs were down \$27,942 due to cost constraints and the fact that in early 2009 the Company undertook a major marketing effort in developing the Ontario infrastructure market; commission costs were higher by \$4,821 due to higher sales and other costs were down \$18,953 due to cost reduction efforts and constraints put in place by the Company;
- Stock based compensation was higher by \$10,860 as a result of stock options granted in the first quarter of 2010 to the Howard Group and to a new director; and

- Depreciation and amortization decreased by \$7,646 – the amortization of intangibles decreased by \$19,260; patents and product development costs were fully amortized in 2009; property and equipment depreciation increased by \$11,614 due to the higher asset base in 2010 compared to the same period in 2009 and higher depreciation recorded on the dry mix equipment, which are depreciation using a unit of production method, due to the increase in dry mix sales volumes compared to the same period in 2009.

Finance and other costs increased by \$26,422 – this is principally due to higher finance costs of \$27,948, including interest expense of \$11,500 related to the subordinated secured debentures that were issued as part of the Private Placement completed in January of 2010; a non cash accretion expense of \$15,968 recorded relative to the subordinated secured debentures; higher interest of \$1,326 on the loans with the Agriculture Financial Services Corporation (“AFSC Loans”) which is due to the loan of \$200,000 in the spring of 2009 to build a new production unit; lower interest of \$1,142 on capital leases due to lower capital lease obligations as a result of obligation payments and the buyout of leases; and other interest amounted to \$296 in the first quarter of 2010. Other costs, which represent foreign exchange expense, were lower by \$1,526.

A net loss for the quarter ended March 31, 2010 was \$213,924 compared with a net loss of \$615,394 for the same period in 2009. The dramatic improvement is the result of a significant increase in sales combined with a continuation of cost reduction initiatives introduced in 2009.

#### D. 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 annual sales occur between the latter part of the second quarter and the first part of the fourth quarter. 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 that follows:

Quarters Ended	Total Revenues \$	Net Income (Loss) \$	Net Income (Loss)	
			Per Share Basic \$	Per Share Diluted \$
<b>2010 Year</b>				
March 31	<b>816,145</b>	<b>(213,924)</b>	<b>(0.006)</b>	<b>(0.006)</b>
<b>2009 Year</b>				
March 31	345,962	(615,394)	(0.018)	(0.018)
June 30	1,183,667	(42,098)	(0.001)	(0.001)
September 30	933,084	(160,000)	(0.005)	(0.005)
December 31	165,134	(492,312)	(0.015)	(0.015)
Total for year	2,627,847	(1,309,804)	(0.039)	(0.039)
<b>2008 Year</b>				
March 31	224,669	(540,255)	(0.016)	(0.016)
June 30	1,249,434	(155,746)	(0.005)	(0.005)
September 30	2,514,185	420,784	0.013	0.013
December 31	1,304,959	(144,761)	(0.004)	(0.004)
Total for year	5,293,247	(419,978)	(0.012)	(0.012)

## E. Consolidated Balance Sheet

	March 31 2010	December 31 2009	Change
Total current assets	\$ <b>1,318,508</b>	\$ 789,972	\$ 528,536
Total non current assets	<u><b>1,799,608</b></u>	<u>1,836,225</u>	<u>(36,617)</u>
Total Assets	\$ <u><b>3,118,116</b></u>	\$ <u>2,626,197</u>	\$ <u>491,919</u>
Current liabilities	\$ <b>822,705</b>	\$ 370,430	\$ 452,275
Non current liabilities	<u><b>332,589</b></u>	<u>186,808</u>	<u>145,791</u>
Total liabilities	\$ <u><b>1,155,304</b></u>	\$ <u>557,238</u>	\$ <u>598,066</u>
Shareholders' equity	\$ <u><b>1,962,812</b></u>	\$ <u>2,068,959</u>	\$ <u>(106,147)</u>

Total current assets were \$1,318,508 at March 31, 2010 compared to \$789,972 at December 31, 2009. This increase of \$528,536 was due to the following:

- Cash was down \$57,763 (see the discussion in Section F - Consolidated Statement of Cash Flows);
- Restricted cash of \$231 was reported as at March 31, 2010 – this is new in 2010 and relates to the requirement to use 3% of cash revenues collected each quarter, as determined from the date of issue, to repay the subordinated secured debentures issued in January 2010;
- Trade and other receivables were up by \$603,625 primarily as a result of the significant increase in sales in the quarter as compared with the fourth quarter of 2009;
- Inventory was down \$23,334 due to its consumption in the production process in the quarter;
- Prepaid expenses and deposits were up \$5,777 due to the normal cycle of prepayments relative to insurance and other items in the first quarter of the year;

Total non current assets were \$1,799,608 at March 31, 2010 compared to \$1,836,225 at December 31, 2009. This decrease of \$36,617 was due to the following:

- Property and equipment was down \$36,617 - additions to plant and equipment were \$3,900 and depreciation expense for the quarter ending March 31, 2010 was \$40,517; and
- Intangibles remained at the same amount as patents and product development costs were fully amortized at December 31, 2009 and no amortization is recorded on the remaining trademarks and technology as the Company views these as having an indefinite life.

Total current liabilities were \$822,705 at March 31, 2010 compared to \$370,430 at December 31, 2009. This increase of \$452,275 was due to the following:

- Trade and other payables were up \$236,700 principally due to the increase in trade payables which were up \$222,157 due to the increased business activity; and
- Current portion of long term debt was up \$215,000 and this represents the Company's estimate of the portion of the subordinated secured debentures, issued as part of the Private Placement in January 2010,

that will be repaid over the next 12 months from 3% of the cash revenues collected over this period (see note 7 to the Consolidated Financial Statements at March 31, 2010). The terms of the AFSC Loans provide for payments to commence July 1 and run through to December 1 each year; and

- Current portion of capital lease obligations were up \$575 compared to the level as at December 31, 2009 due to an increase in the scheduled repayments.

Total non current liabilities were \$332,599 at March 31, 2010 compared to \$186,808 at December 31, 2009. This increase of \$145,791 was due to the following:

- Long term debt was up \$156,475 due to the issue of the subordinated secured debentures issued as part of the Private Placement in January 2010 (see note 7 to the Consolidated Financial Statements at March 31, 2010). The fair value recorded for the subordinated secured debentures, after the allocation of transaction costs, was \$355,507. For accounting purposes, an accounting entry is recorded each period to accrete the recorded amount to the full value of the repayment obligation of \$500,000 over its expected life. This is reflected in finance costs as an “accretion expense on subordinated secured debentures” and amounted to \$15,968 in the quarter. This expense has no current period impact on the Company’s cash position. The current portion of this obligation is recorded in current liabilities (see above); and

- Capital lease obligations were down \$10,684 compared to the level as at December 31, 2009 due to repayments in the quarter of \$10,109 and the increase in the current portion.

Shareholders’ Equity was \$1,962,812 at March 31, 2010 compared to \$2,068,959 at December 31, 2009. This decline of \$106,147 is due to the following:

- No new share capital was issued in 2010;

- The Company issued share purchase warrants as part of the Private Placement in January 2010, the fair value attributable to the share purchase warrants, after the allocation of issue costs, was \$88,877 (see note 7 and 8 to the Consolidated Financial Statements at March 31, 2010);

- Contributed surplus increase is due the stock based compensation charge of \$18,900; and

- The deficit increased by the loss in the period of \$213,924.

See the Consolidated Statements of Shareholders’ Equity included in the Consolidated Financial Statements at March 31, 2010.

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

The cash position of the Company at March 31, 2010 was \$52,547 compared to \$110,310 at December 31, 2009 and \$496,719 at March 31, 2009. The change in cash in the first quarter of 2010 compared with the same period in 2009 is provided below:

	Three Months Ended March 31		
	2010	2009	Change
Cash provided by (used in) operating activities	\$ (487,907)	\$ 30,536	\$ (518,443)
Cash used in investing activities	(3,900)	(4,911)	1,011
Cash provided by (used in) financing activities	434,044	(10,708)	444,752
Increase (decrease) in cash	(57,763)	14,917	(72,680)
Cash, at beginning of period	110,310	481,802	(371,492)
Cash, at end of period	\$ 52,547	\$ 496,719	\$ (444,172)

- The Company used \$487,907 in cash from operating activities, after considering changes in non-cash working capital, in the first quarter of 2010 as compared to generating cash of \$30,536 in the same period

in 2009, an increase in use of \$518,443. The negative cash flow, before non cash working capital adjustments, was lower by \$420,652 compared with 2009. This decrease was primarily due to the reduction in the reported loss of \$401,470 compared to 2009. This improvement was offset by lower cash generation from the net change in non-cash working capital items of \$939,095 as compared to 2009. This is primarily due to level of trade receivables coming into the year and the timing of collection of trade receivables – at December 31, 2009 trade receivables were \$177,035 as compared to \$1,043,012 at December 31, 2008.

- Cash used in investing activities relates to additions to property and equipment which amounted to \$3,900 in the first quarter of 2010 and \$4,911 in the same quarter of 2009.

- Cash provided from financing activities was \$434,044 in the first quarter of 2010 compared to a use of \$10,708 in the same period in 2009. In 2010, the Company completed the Private Placement for \$500,000, which resulted in net proceeds to the Company of \$444,384 after issue costs. For accounting purposes, the net proceeds of the Private Placement were allocated to the subordinated secured debentures and to the share purchase warrants relative to their fair value with \$355,507 for the subordinated secured debentures and \$88,877 for the share purchase warrants (see note 7 to the Consolidated Financial Statements at March 31, 2010). In 2010, repayments on capital lease obligations were \$10,109 as compared with \$10,708 in the same period of 2009. Restricted cash of \$231 was reported as a financing activity for the quarter ending March 31, 2010 – this is new in 2010 and relates to the requirement to use 3% of cash revenues collected each quarter, as determined from the date of issue, to repay the subordinated secured debentures issued in January 2010.

### G. Liquidity and Capital Resources

At March 31, 2010, the Company had consolidated net working capital (current assets, excluding restricted cash, less trade and other payables) of \$850,258 compared to \$558,653 at December 31, 2009. The increase of \$291,605 is itemized in the following table:

	March 31 2010	December 31 2009	Change
Current Assets			
Cash	\$ 52,547	\$ 110,310	\$ (57,763)
Trade and other receivables	782,972	179,347	603,625
Inventory	417,385	440,719	(23,334)
Prepaid expenses and deposits	65,373	59,596	5,777
	<u>1,318,277</u>	<u>789,972</u>	<u>528,305</u>
Less: Trade and other payables	468,019	231,319	236,700
Total Net Consolidated Working Capital	\$ <u>850,258</u>	\$ <u>558,653</u>	\$ <u>291,605</u>

The increase in consolidated net working capital of \$291,605 is principally due to the increase in trade receivables due to the increase in sales in the first quarter of 2010 as 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 E - Consolidated Balance Sheet herein.

As of March 31, 2010, the Company had cash of \$52,547 and other net working capital of \$797,711.

The Company has a demand operating facility with a Canadian chartered bank 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 net tangible worth ratio of less than 1.75:1. At March 31, 2010 and December 31, 2009, the Company had utilized \$Nil of its \$1,500,000 operating line and was in full compliance with its debt covenants. The Company uses this facility to finance working capital requirements as required. The facility

was not used in the first quarter of 2010. Based on the restrictions in the operating facility the actual operating line availability at March 31, 2010 was \$708,000 (\$318,000 at December 31, 2009).

The cash position at March 31, 2010, the realization of the net working capital as at March 31, 2010, the availability of its operating line of credit and the sales contracts that are in place provide the necessary liquidity to carry the Company's operations through the first part of 2010 until seasonal sales have historically increased. Ongoing liquidity is dependent on the Company achieving its sales forecast. The Company has no capital spending commitments at March 31, 2010 and any capital spending in 2010 is to be funded by internal cash flows.

The Company defines its capital as the AFSC Loans, the subordinated secured debentures, the capital lease obligations and shareholders' equity. The current objective of the Company is to manage its capital through growth in earnings and to re-invest the earnings generated to facilitate the continued growth in the Company, in order to provide an appropriate rate of return to shareholders in relation to the risks underlying the Company's assets. The consolidated capital of the Company, as outlined in Note 18 - Capital management - to the Consolidated Financial Statements as at March 31, 2010, was \$2,650,997 as compared to \$2,394,878 at December 31, 2009. The increase of \$256,119 was the result of the increase in long term debt of \$371,475 which relates to the issue of the subordinated secured debentures (see note 7 to the Consolidated Financial Statements at March 31, 2010), the decrease in capital lease obligations due to scheduled repayments of \$10,109, and the decrease in shareholders' equity of \$106,147 (see E. Consolidated Balance Sheet for details).

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, 2009.

#### **H. Off Balance Sheet Arrangements**

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

#### **I. Transactions with Related Parties**

In first quarter of 2010, employees, directors and relatives of certain employees subscribed for \$230,000 of the Private Placement (see Note 7 to the Consolidated Financial Statements as at March 31, 2010). There were no other significant related party transactions and these were in the normal course of operations and measured at the exchange rate.

#### **J. Critical Accounting Estimates**

The preparation of financial statements in conformity with GAAP 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.

In the quarter ended March 31, 2010 the Company had to estimate the amount of the subordinated secured debentures that are repayable within the next twelve months. 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 March 31, 2010, management was required to forecast future revenues and the cash collection of this future revenue.

Estimates of the fair value of stock options and share purchase 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.

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

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

There have been no changes to the Company's accounting policies since December 31, 2009 (refer to Note 2 - Significant Accounting Policies to the Consolidated Financial Statements at December 31, 2009).

### ***Future Accounting Policies***

The following are the Accounting changes that have been enacted and will affect future reporting periods.

In January 2006, the Canadian Institute of Chartered Accountants ("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 substantially completed its IFRS conversion project in 2009 and has identified the following major differences between current accounting policies and those required or expected to be required in preparing IFRS financial statements.

#### *Property and equipment*

International accounting standard ("IAS") 16 - Property, plant and equipment - reinforces the requirement under Canadian GAAP that requires that each part of property, plant and equipment that has a cost that is significant in relation to the overall cost of the item should be depreciated separately. This could result in an increase or decrease in the Company's current depreciation rates.

#### *Income taxes*

Under IAS 12 - Income taxes - a deferred tax asset is recognized for the carry forward of unused tax losses to the extent that it is "probable" that future taxable profit will be available against which the unused tax losses can be utilized and refers to "convincing evidence" of such. Under Canadian GAAP, unused tax losses are recognized when it is "more likely than not" that the amount will be realized, where "more likely than not" is defined as when the probability of occurrence is greater than 50 percent. These wording differences may make it more difficult to recognize the Company's unused income tax losses which were over \$5 million at December 31, 2009.

#### *Impairment of Long-lived assets*

IAS 36 - Impairment of assets - uses a one step approach for testing for and measurement of impairment of long-lived assets. The asset carrying value is compared directly with the higher of fair value less costs to sell and the value in use (which uses discounted future cash flows). A two step approach is generally used under Canadian GAAP whereby first the asset carrying value is compared with undiscounted cash flows to determine if impairment exists and then measuring any impairment by comparing the asset carrying value with fair value. This difference may potentially result in a write-down where the carrying value of an asset would be supported under Canadian GAAP on an undiscounted cash flow basis. In addition, under IFRS impairment losses are reversed where circumstances have changed such that the impairment has been reduced. Canadian GAAP prohibits reversal of impairment losses.

The Company plans to continue to monitoring IFRS developments and all changes to pronouncements prior to January 1, 2011 will be incorporated as required. As well, the Company will be gathering the comparative IFRS information each quarter through 2010 so that this information will be available for quarterly reporting under IFRS beginning in 2011.

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, at which time the Company will adopt. The Company does not expect any material impact from the adoption of these standards.

Section 1582 "Business Combinations" was updated and is effective for a business combination for which the acquisition date is on or after January 1, 2011, at which time the Company will adopt. The Company does not expect any material impact from the adoption of these standards.

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, at which time the Company will adopt. The Company does not expect any material impact from the adoption of these standards.

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 International Accounting Standards Board.

## **L. Financial Instruments**

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

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

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

The Company has classified its financial instruments under the following classifications:

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

The fair values of cash, accounts receivable, accounts payable and accrued liabilities 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 and its carrying value are equivalent.

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.

#### *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 March 31, 2010 and December 31, 2009 and is not significantly exposed to interest rate risk at this time.

#### *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 March 31, 2010, 3 customers and at December 31, 2009, 3 customers accounted for approximately 93% and 95% respectively of trade receivables.

The credit period on sales is generally 30 days, 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 March 31, 2010 and December 31, 2009:

	<u>Trade Receivables Aging</u>		<u>Holdback Amounts</u>	
	2010	2009	<u>Included</u>	
			2010	2009
1-30 days	\$ 579,411	\$ 91,815	\$ -	\$ -
30-60 days	105,835	79,452	-	76,709
61-90 days	78,004	5,677	-	5,677
Greater than 90 days	3,765	91	1,021	91
	<u>\$ 767,015</u>	<u>\$ 177,035</u>	<u>\$ 1,021</u>	<u>\$ 82,477</u>

The Company had no impaired trade receivables at March 31, 2010 and December 31, 2009.

#### *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 March 31, 2010 and December 31, 2009, 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 March 31, 2010 was \$708,000 (December 31, 2009 \$318,000).

#### M. Disclosure of Outstanding Share Data

As at March 31, 2010 and May 13, 2010, 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 March 31, 2010</u>	<u>Outstanding as at May 13, 2010</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 2,870,825 Common Shares at an exercise price at between \$0.10-\$0.35	Stock options to acquire 2,820,825 Common Shares at an exercise price at between \$0.10-\$0.35
Securities convertible or exercisable into voting or equity securities – share purchase warrants	Share purchase warrants to acquire 1,000,000 Common Shares	Share purchase warrants to acquire 1,000,000 Common Shares at an exercise price of \$0.15	Share purchase warrants to acquire 1,000,000 Common Shares at an exercise price of \$0.15

In the quarter ended March 31, 2010, the Company granted options to acquire common shares of the Company as follows:

- On February 5, 2010, the Company granted stock options to the Howard Group to enable it to acquire 300,000 common shares of the Company at an exercise price of \$0.12. These stock options will vest as to one quarter every three months from the date of grant and expire three years from the date of grant.
- On March 16, 2010, the Company granted stock options to a new director to enable him to acquire 150,000 common shares of the Company at an exercise price of \$0.30. These stock options will vest as to one third immediately and one third on the first and second anniversary date of the grant and expire in five years.

#### O. Outlook

Historically, the sales of the Company have followed the seasonal nature of the construction industry in Canada, with most of the sales occurring from June through to October. Based on the pattern of projects on which the Company is placing bid quotes, sales for the second quarter will not be as strong as the first quarter with most of the projects falling in the July to October time frame.

As mentioned in Section B – Overall Performance and First Quarter Highlights, the volume of quotes that the Company has made in the first quarter is substantially higher than in the previous year at this point in time with most of these quotes being in the infrastructure market. Whether this will result in an increase in sales remains to be determined.

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

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

**Appendix A – Forward Looking Statements**

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

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**Based on the pattern of projects on which the Company is placing bid quotes, sales for the second quarter will not be as strong as the first quarter with most of the projects falling in the July to October time frame.**

*The foregoing statement is forward looking and is based on the pattern of projects on which the Company is placing bid quotes in the first part of 2010. The principal assumptions are that the projects on which bid quotes are made result in sales and that these projects occur as forecast. The principal risks that could affect these assumptions include the bid quotes do not result in sale or the projects that result from the bid quote occur earlier or later than forecast.*