CEMATRIX CORPORATION
Consolidated Financial Statements
(in Canadian dollars)
December 31, 2015

CEMATRIX CORPORATION

Management's Responsibility for Financial Reporting

To the Shareholders:

CEMATRIX CORPORATION

Management has responsibility for preparing the accompanying consolidated financial statements. The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards. When alternative methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgement. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects. Management has developed and maintains appropriate accounting and systems of internal control designed to provide reasonable assurance that reliable and relevant financial information is produced. In addition, programs of proper business conduct and risk management have been implemented to protect the Company's assets and operations. Policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or misuse and financial records are properly maintained to provide reliable financial information for the preparation of the consolidated financial statements.

The Board of Directors (the "Board") is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out these responsibilities principally through the Audit Committee (the "Committee"), which includes two independent directors.

The Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Company's external auditors. The Committee reviews the consolidated financial statements and the external auditors' report thereon and reports its findings to the Board for approval.

MNP LLP, an independent firm of Chartered Accountants is appointed by the shareholders to audit the consolidated financial statements and to report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

March 2, 2016

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

Independent Auditors' Report

To the Shareholders of CEMATRIX CORPORATION:

We have audited the accompanying consolidated financial statements of CEMATRIX CORORATION and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2015 and 2014 and the consolidated statements of income (loss) and comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of CEMATRIX CORPORATION and its subsidiaries as at December 31, 2015 and 2014 and their consolidated financial performance and their consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

MNP LLP

March 2, 2016
Calgary Alberta

Chartered Accountants

CEMATRIX CORPORATION
Consolidated Statements of Financial Position
As at December 31
(in Canadian Dollars)

		2015		2014
ASSETS				
Current Assets				
Cash and cash equivalents	$	**1,450,785**	$	50,019
Term deposit		**70,000**		-
Trade and other receivables *(note 5)*		**4,580,868**		4,259,086
Inventory *(note 6)*		**587,970**		511,697
Prepaid expenses and deposits		**75,642**		89,410
Current portion of share acquisition loans *(note7)*		**19,045**		20,757
		6,784,310		4,930,969
Non Current Assets				
Share acquisition loans *(note 7)*		**48,202**		67,247
Property and equipment *(note 8)*		**3,477,068**		3,042,871
Intangibles *(note 9)*		**465,116**		465,116
Deferred taxes *(note 20)*		**485,927**		753,439
		4,476,313		4,328,673
Total Assets	$	**11,260,623**	$	9,259,642
LIABILITIES and EQUITY				
Current Liabilities				
Bank overdraft	$	**-**	$	194,154
Bank operating loan *(note 10)*		**-**		1,110,000
Trade and other payables *(note 11)*		**2,104,234**		1,927,492
Factoring liability *(note 12)*		**703,462**		-
Mezzanine loan *(note 13)*		**750,000**		-
Current portion of long term debt *(note 14)*		**286,662**		286,662
Current portion of finance lease obligations *(note 15)*		**56,247**		55,542
		3,900,605		3,573,850
Non Current Liabilities				
Long term debt *(note 14)*		**1,736,494**		1,929,220
Finance lease obligations *(note 15)*		**140,963**		86,955
		1,877,457		2,016,175
Total Liabilities		**5,778,062**		5,590,025
SHAREHOLDERS' EQUITY				
Share capital *(note 16)*		**7,434,530**		7,396,309
Contributed surplus		**799,430**		600,805
Accumulated other comprehensive loss		**(25,462)**		(2,190)
Deficit		**(2,725,937)**		(4,325,307)
Total Shareholders' Equity		**5,482,561**		3,669,617
Total Liabilities and Shareholders' Equity	$	**11,260,623**	$	9,259,642

Commitments *(note 27);* Subsequent event *(note 29)*

Approved on behalf of the Board

Signed "Jeffrey Kendrick" **Director** *Signed "Steve Bjornson"* **Director**

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

CEMATRIX CORPORATION
Consolidated Statements of Income (loss) and Comprehensive Income (loss)
For the years ended December 31
(in Canadian Dollars)

	2015	2014
Revenue *(note 28)*	**$ 15,379,787**	$ 8,712,193
Cost of sales *(note 17)*	**10,452,369**	6,823,552
Gross margin	**4,927,418**	1,888,641
Operating expenses		
General and administrative	**1,346,824**	953,387
Sales, marketing and engineering	**1,145,166**	988,466
Total operating expenses	**2,491,990**	1,941,853
Operating income (loss)	**2,435,428**	(53,212)
Non-cash stock based compensation *(note 22)*	**(224,049)**	(324,590)
Finance costs *(note 18)*	**(400,020)**	(232,890)
Other income *(note 19)*	**45,820**	13,046
Income (loss) before taxes	**1,857,179**	(597,646)
Recovery (provision) of deferred taxes *(note 20)*	**(267,512)**	26,858
Net income (loss) attributable to the common shareholders	**1,589,667**	(570,788)
Other comprehensive loss		
Items that may be reclassified subsequent to profit or loss:		
Unrealized foreign exchange loss on translation of foreign subsidiary	**(23,272)**	(15,021)
Total comprehensive income (loss)	**$ 1,566,395**	$ (585,809)
Income (loss per common share *(note 21)*		
Basic	**$ 0.047**	$ (0.017)
Fully Diluted	**$ 0.046**	$ (0.017)
Weighted average number of common shares *(note 21)*		
Basic	**34,136,542**	33,593,336
Fully Diluted	**34,526,255**	33,593,336

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

CEMATRIX CORPORATION
Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31
(in Canadian Dollars)

		Share Capital		Contributed Surplus	Accumulated other Comprehensive income (loss)		Deficit		Total Shareholders' Equity
Balance at December 31, 2013	$	7,160,015	$	361,198	12,831	$	(3,800,333)	$	3,733,711
Issue of shares *(note 16)*		84,000		-	-		-		84,000
Reclassification of contributed surplus to share capital *(note 22)*		39,169		(39,169)	-		-		-
Reclassification of share acquisition loans *(note 16)*		113,125		-	-		-		113,125
Non-cash stock based compensation *(note 22)*		-		324,590	-		-		324,590
Reclassification of contributed surplus to deficit *(note 22)*		-		(45,814)	-		45,814		-
Net loss attributable to common shareholders		-		-	-		(570,788)		(570,788)
Unrealized foreign exchange loss on translation of foreign subsidiary		-		-	(15,021)		-		(15,021)
Balance at December 31, 2014	$	7,396,309	$	600,805	(2,190)	$	(4,325,307)	$	3,669,617
Balance at December 31, 2014	$	**7,396,309**	**$**	**600,805**	**(2,190)**	**$**	**(4,325,307)**	**$**	**3,669,617**
Issue of shares *(note 16)*		**22,500**		**-**	**-**		**-**		**22,500**
Reclassification of contributed surplus to share capital *(note 22)*		**15,721**		**(15,721)**	**-**		**-**		**-**
Non-cash stock based compensation *(note 22)*		**-**		**224,049**	**-**		**-**		**224,049**
Reclassification of contributed surplus to deficit *(note 22)*		**-**		**(9,703)**	**-**		**9,703**		**-**
Net income attributable to common shareholders		**-**		**-**	**-**		**1,589,667**		**1,589,667**
Unrealized foreign exchange loss on translation of foreign subsidiary		**-**		**-**	**(23,272)**		**-**		**(23,272)**
Balance at December 31, 2015	**$**	**7,434,530**	**$**	**799,430**	**(25,462)**	**$**	**(2,725,937)**	**$**	**5,482,561**

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

CEMATRIX CORPORATION
Consolidated Statements of Cash Flows
For the years ended December 31
(in Canadian Dollars)

	2015	2014
Cash generated from (used in):		
Operating activities		
Net income (loss) attributable to common shareholders	**$ 1,589,667**	$ (570,788)
Add (deduct) non-cash items		
Provision (recovery) of deferred taxes *(note 20)*	**267,512**	(26,858)
Depreciation *(note 8)*	**371,860**	339,980
Non-cash stock based compensation *(note 22)*	**224,049**	324,590
Non-cash fair value adjustment on share acquisition loans *(note 7)*	**-**	25,121
Accretion of non-cash fair market value adjustment on share acquisition loans	**(1,868)**	-
Unrealized foreign exchange gain on translation of foreign subsidiary	**(23,272)**	(15,021)
	2,427,948	77,024
Net change in non-cash working capital items *(note 23)*	**(207,545)**	(1,279,401)
Cash generated from (used in) operations	**2,220,403**	(1,202,377)
Investing activities		
Purchase of property and equipment *(note 8)*	**(691,687)**	(885,862)
Purchase of term deposit	**(70,000)**	-
Repayments on share acquisition loans *(note 7)*	**22,625**	-
Change in non-cash working capital items *(note 23)*	**-**	20,000
Cash used in investing activities	**(739,062)**	(865,862)
Financing activities		
Proceeds from (repayments of) bank operating loan	**(1,110,000)**	675,000
Proceeds from BDC Financing *(note 14)*	**93,936**	542,121
Repayments of BDC Financing *(note 14)*	**(286,662)**	(286,662)
Proceeds from factoring *(note 12)*	**4,344,938**	-
Repayment on factoring *(note 12)*	**(3,641,476)**	-
Proceeds from mezzanine loan *(note 13)*	**750,000**	-
Proceeds from secured debenture *(note 14)*	**-**	1,000,000
Repayments of finance lease obligations	**(59,657)**	(54,263)
Issue of common shares *(note 16)*	**22,500**	84,000
Cash generated from financing activities	**113,579**	1,960,196
Increase (decrease) in cash	**1,594,920**	(108,043)
Cash deficiency, beginning of year	**(144,135)**	(36,092)
Cash (cash deficiency), end of year	**$ 1,450,785**	$ (144,135)
Cash (cash deficiency)		
Cash and cash equivalents	**$ 1,450,785**	$ 50,019
Bank overdraft	**-**	(194,154)
Cash (cash deficiency), end of year	**$ 1,450,785**	$ (144,135)
Finance costs paid during the year	**$ 383,004**	$ 206,154

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

1. Corporate information

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

Through its wholly-owned subsidiary, CEMATRIX (Canada) Inc. and its subsidiary CEMATRIX (USA) 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 construction market for infrastructure in Western Canada and Ontario and on a selective basis in Quebec, the Northwest Territories and the United States of America (U.S.) and oil and gas construction projects in Western Canada.

The consolidated financial statements of the Company for the year ended December 31, 2015 were authorized for issue in accordance with a resolution of the Board of Directors on March 2, 2016.

2. Basis of preparation

Statement of compliance
These consolidated financial statements for the year ended December 31, 2015 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Reporting Interpretation Committee ("IFRIC") in effect at the closing date of December 31, 2015.

Basis of measurement
These consolidated financial statements were prepared under the historical cost convention except for share-based payment transactions and financial instruments which are measured at fair value.

Use of estimates and judgments
The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

Functional and presentation currency
These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. The functional currency of Cematrix (USA) Inc. is US dollars.

3. Significant accounting judgements, estimates and assumptions

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

3. Significant accounting judgements, estimates and assumptions *(continued)*

The key sources of these uncertainties that have a significant risk of causing material adjustment to the amounts recognized in the consolidated financial statements are discussed below:

A) Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit ("CGU") exceeds its recoverable amount, which is the higher of its fair value less costs of disposal ("FVLCS") and its value in use ("VIU"). The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. For purposes of impairment testing of property and equipment and intangibles, the Company has only one CGU which is the production and placement of cellular concrete. The carrying values of non financial assets are disclosed in notes 8 and 9.

The recoverable amounts have been determined based on a value in use calculation using cash flow projections from financial forecasts approved by senior management covering a five year discounted future cash flow model plus a terminal value (2014 – one year of cash flow projections plus terminal value). There is a significant amount of uncertainty with respect to estimating the recoverable amount given the necessity of making key economic projections related to the following key assumptions: future cash flows, industry growth opportunities, including general economic risk assumptions, gross margins, terminal value and discount rate.

The key assumptions used in the calculation of recoverable amounts are 2016 growth rates, gross margin, terminal value and discount rates:

	2015	2014
Growth rate over the next 5 years (2014 – one year)	**2%**	50%
Gross margin	**27%**	28%
Terminal value	**6.7x**	6.3x
Pre tax discount rate	**18%**	10%

Near term (1 year) sales growth assumptions are based on contracted projects (including backlogs), as well as probability adjusted forecasts (range of 10% to 100%) for projects on which the Company has placed or will place bids, where the probabilities applied are based on management's assessment of a particular project based on historical experience and the stage that the project is in the sales cycle. Management has also given consideration to its relationships with customers, the competitive landscape and changes in its business strategy. With regard to gross margins, consideration is given to historical operating margins in the end markets where prospective work opportunities are most significant and changes in the Company's business. A 10% change in growth rate or 5% change in gross margin in isolation would not result in an impairment charge.

The terminal value was calculated using a discount rate of 18% and steady annual growth of 2.0% in the terminal year.

3. Significant accounting judgements, estimates and assumptions *(continued)*

A) Impairment of non-financial assets (continued)

Pre-tax discount rates used reflect management's assessment of the risks of the cash operating unit and its past experience in raising capital. The Company's pre-tax discount rate has been applied based on the weighted cost of capital and reflects the current market assessments of the time value of money and the risks specific to the CGU. Furthermore, suitable sensitivity tests are also applied in conjunction with cash flow forecast for the CGU in question. A change in the absolute discount rate of 2% in isolation would not result in an impairment charge.

This exercise did not indicate any need for an impairment provision as at December 31, 2015.

B) Non-cash stock based compensation

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

C) Taxes

The calculation of the deferred tax asset or liability is based on assumptions about the occurrence of, and timing of many taxable events and the enacted or substantively enacted rates anticipated to apply to income in the years in which temporary differences are expected to be realized or reversed.

D) Allowance for doubtful accounts

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

4. Significant accounting policies

The significant accounting policies of the Company are outlined on the following pages:

A) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, CEMATRIX (Canada) Inc. and its subsidiaries: CEMATRIX (Calgary) Ltd. (100% owned) and CEMATRIX (USA) Inc. (99.99% owned). Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. 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.

4. Significant accounting policies *(continued)*

B) Cash and cash equivalents

Cash and cash equivalents include short-term investments with original maturities of three months or less which are considered to be cash equivalents and are recorded at cost, which approximates fair market value.

For purposes of the consolidated statements of cash flows, cash consists of cash and cash equivalents, net of bank overdraft.

C) Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined by the weighted average method. Net realizable value is the estimated selling price in the ordinary course of business. Inventory consists mainly of foaming agent used in the production of the Company's product, cellular concrete. It also includes marketing materials. Inventory is reviewed on a regular basis to ensure the carrying value does not exceed net realizable value. If the carrying value does not exceed net realizable value, a write-down is recognized immediately. The write-down may be reversed in a subsequent period if the circumstances which caused it no longer exist.

D) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. When significant parts of property and equipment are required to be replaced in intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciation, respectively. All other repair and maintenance costs are recognized in the consolidated statement of income (loss) and comprehensive income (loss) as incurred.

Depreciation is calculated on a straight-line basis to recognize the cost less estimated residual value over the estimated useful life of the assets as follows**:**

Equipment and cellular material processors	3-20 years
Vehicles	7-15 years
Computer equipment and software	5-10 years
Furniture and fixtures	10 years
Leasehold improvements	Over the term of the related lease

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

E) Leases

Leases or other arrangements entered into for the use of an asset are classified as either finance or operating leases. Finance leases transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item. Finance leases are capitalized at the commencement of the lease term at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Capitalized leased assets are amortized over the shorter of the estimated useful life of the assets and the lease term. When the lease contains terms that allow ownership to pass to the Company or a bargain purchase option, the period of amortization is the economic life of the asset. All other leases are classified as operating leases and the payments are amortized on a straight-line basis over the lease term.

4. Significant accounting policies *(continued)*

F) Intangible assets

Intangible assets represent foaming agent technology, process licenses and trademarks. Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is its 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 any expenditure is reflected in the consolidated statement of income (loss) and comprehensive income (loss) in the year in which the expenditure is incurred.

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

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment 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 is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash generating unit level. 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.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of income (loss) and comprehensive income (loss) when the asset is derecognized.

G) Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash generating units, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of income (loss) and comprehensive income (loss).

Where an impairment loss subsequently reverses for assets with a finite useful life, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash generating unit in prior years.

A reversal of an impairment loss is recognized immediately in consolidated statement of income (loss) and comprehensive income (loss).

4. Significant accounting policies *(continued)*

H) 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 volumes 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.

I) Non-cash stock based compensation

The Company operates an equity-settled non-cash stock based compensation plan under which it receives services from employees and consultants as consideration for equity instruments of the Company.

For equity-settled plans, expense is based on the fair value of the awards granted, net of expected forfeitures, on the date of grant. Fair values are determined using observable share prices and/or pricing models such as the Black-Scholes-Merton option-pricing model. The expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are satisfied with a corresponding credit to contributed surplus. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period.

For grants that expire or are forfeited without being exercised, the Company records a reclassification to deficit of the non-cash stock based compensation previously recorded to contributed surplus. For grants that are exercised, the Company records a reclassification to share capital of the non-cash stock based compensation previously recorded to contributed surplus.

At the end of each reporting period, the Company re-assesses its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions in the consolidated statement of income (loss) and comprehensive income (loss).

J) Income (loss) per common share

Basic income (loss) per common share is calculated by dividing the net income (loss) attributable to common shareholders (the numerator) by the weighted average number of common shares outstanding (the denominator) during the year. The denominator (number of units) is calculated by adjusting the shares issued at the beginning of the year by the number of shares bought back or issued during the year, multiplied by a time-weighting factor.

Diluted income (loss) per common share is calculated by adjusting the denominator for the effects of dilutive share purchase options and any other potential dilutive items. The effects of anti-dilutive potential units are ignored in calculating diluted income per common share. All share purchase options are considered anti-dilutive when the Company is in a loss position or the average exercise price of the options exceeds the average trading price of the Company's common shares.

4. Significant accounting policies *(continued)*

K) Taxes

Tax expenses comprise current and deferred tax. Taxes are recognized in the consolidated statement of income (loss) and comprehensive income (loss) except to the extent it relates to items recognized directly in equity.

Current tax

Current tax expense is based on the results for the year as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

Deferred taxes are the taxes expected to be payable or recoverable on differences between the carrying amounts of assets in the consolidated statement of financial position and their corresponding tax bases used in the computation of taxable profit, and are accounted for using the liability method.

Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax bases. Deferred taxes are measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

L) Foreign currency translation

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

The Company translates the accounts of CEMATRIX (USA) Inc. into Canadian dollars using the closing rate of exchange for both monetary and non-monetary assets and liabilities and the average exchange rate for revenues and expenses. The Company records the exchange differences on the translation of net assets whose functional currency is the USD in unrealized foreign exchange gain on translation of foreign subsidiary in the consolidated statement of income (loss) and comprehensive income (loss). This amount is reflected on the consolidated statement of financial position as part of the other comprehensive loss.

4. Significant accounting policies *(continued)*

M) Non-derivative financial instruments

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

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

Financial assets at fair value through profit and loss

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

Loans and receivables

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

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the trade receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statement of income (loss) and comprehensive income (loss). When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

Other financial liabilities

Other financial liabilities are initially measured at fair value and are subsequently measured at amortized cost using the effective interest rate method, with interest expense recognized on an effective yield basis. Liabilities in this category include bank overdraft, bank operating loan, trade and other payables, factoring liability, mezzanine loan, and long-term debt.

Equity instruments

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

N) Borrowing costs

Borrowing costs are recognized as an expense in the period in which they are incurred unless they are incurred on a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use. Interest costs on borrowings incurred to finance a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

4. Significant accounting policies *(continued)*

O) New accounting policies

During 2015 the Company adopted new IFRS standards and amendments in accordance with the transitional provisions of each standard as outlined below:

IFRS 8 Operating segments - the amendments to IFRS 8, issued in December 2013, require an entity to disclose the judgments made by management in applying the aggregation criteria for reportable segments.

IAS 24 Related Parties – The amendments to IAS 24, issued in March 2014, clarify that a management entity, or any member of a group of which it is a part, that provides key management services to a reporting entity, or its parent, is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. This replaces the more detailed disclosure by category required for other key management personnel compensation.

IFRS 13 Fair Value Measurement – The amended standard clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts if the effect of discounting is immaterial. It also clarifies that portfolio exception can be applied not only to financial assets and liabilities, but also to other contracts within scope of IFRS 39 and IFRS 9.

The adoption of this standard does not have any impact on the Company's consolidated financial statements

P) Future accounting pronouncements

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or the IFRIC that are mandatory for accounting periods beginning on or after January 1, 2016 or later periods. The standards impacted that are applicable to the Company are as follows:

IAS 1 Presentation of Financial Statements - IAS 1, Presentation of Financial Statements ("IAS 1"), has been amended to clarify the guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendment to IAS 1 is effective for annual periods beginning on or after January 1, 2016

IFRS 9 Financial Instruments – On July 24, 2014, the IASB issued the final version of IFRS 9, "Financial Instruments" ("IFRS 9") to replace IAS 39, "Financial Instruments: Recognition and Measurement"("IAS 39"). IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements; however, where the fair value option is applied to financial liabilities, the change in fair value resulting from an entity's own credit risk is recorded in OCI rather than net earnings, unless this creates an accounting mismatch. In addition, a new expected credit loss model for calculating impairment on financial assets replaces the incurred loss impairment model used in IAS39. The new model will result in more timely recognition of expected credit losses. IFRS 9 also includes a simplified hedge accounting model, aligning hedge accounting more closely with risk management. IFRS 9 is effective for years beginning on or after January 1, 2018. Early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period.

IFRS 15 Revenue from Contracts With Customers – On May 28, 2014, the IASB issued IFRS 15, "Revenue From Contracts With Customers" ("IFRS 15") replacing International Accounting Standard 11, "Construction Contracts" ("IAS 11"), IAS 18, "Revenue" ("IAS 18"), and several

4. Significant accounting policies *(continued)*

revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. IFRS 15 is effective for years beginning on or after January 1, 2018.

The Company has not determined the impact on its consolidated financial statements from the adoption of these future accounting pronouncements.

5. Trade and other receivables

Trade and other receivables consist of the following components as at December 31, 2015 and 2014:

		2015		2014
Trade receivables	**$**	**3,823,433**	$	3,890,081
Holdbacks		**693,854**		324,236
Other receivables		**63,581**		44,769
	$	**4,580,868**	$	4,259,086

Trade receivables and holdbacks are unsecured and 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. 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.

In May 2015, CEMATRIX (CANADA) INC., entered into a receivable purchase agreement with Tallinn Capital Partners Corp ("Tallinn Capital"), as part of a working capital financing agreement (see note 12 and 13). As at December 31, 2015 trade receivables include $879,328 related to factored accounts**.**

The aging of the trade receivables were as follows as at December 31, 2015 and 2014:

		2015		2014
1-30 days	**$**	**1,206,728**	$	1,886,293
30-60 days		**928,495**		849,496
61-90 days		**306,786**		769,457
Greater than 90 days		**1,381,424**		384,835
	$	**3,823,433**	$	3,890,081

In determining the recoverable amount of a trade, holdbacks and other receivables, the Company performs a risk analysis considering the type and age of the outstanding receivable and the credit worthiness of the counterparties. Based on account balances greater than 90 days, the Company believes that no impairment allowance is necessary in respect of trade receivables. Included in general and administrative expenses is $nil of bad debt expense (2014 - $24,907 in regard to a settlement with a customer.

6. Inventory

Inventory consists of the following components as at December 31, 2015 and 2014:

		2015		2014
Raw materials (principally foaming agent)	**$**	**585,332**	$	506,723
Marketing material		**2,638**		4,974
	$	**587,970**	$	511,697

Inventory expensed as part of cost of sales was $396,356 and $221,803, respectively, for the years ended December 31, 2015 and 2014. There were no inventory write-downs in either 2015 or 2014.

7. Share acquisition loans

Share acquisition loans consist of the following components as at December 31, 2015 and 2014:

		2015		2014
Share acquisition loans	**$**	**113,125**	$	113,125
Repayments		**(22,625)**		-
		90,500		113,125
Non-cash fair value adjustment		**(25,121)**		(25,121)
Accretion of non-cash fair value adjustment		**1,868**		-
		(23,253)		(25,121)
		67,247		88,004
Less current portion		**(19,045)**		(20,757)
	$	**48,202**	$	67,247

Share acquisition loans of $113,125 were issued to management in previous years to purchase shares of the Company. In October 2014, the terms of the share acquisition loans were changed to introduce equal annual repayment terms beginning 2015 such that the loans will be fully repaid by December 31, 2019. Prior to this change the share acquisition loans were included as a reduction in share capital. The loans bear no interest unless the loans are not repaid in accordance with the repayment terms, then the interest is payable annually on the amount then outstanding at Bank of Canada prime rate, then in effect, plus two percent and at the option of the Company the loans become immediately due and payable. For accounting purposes, because the loans bear no interest, the loans were fair valued using the effective interest rate method. An effective interest rate used was 9%. The fair value adjustment of $25,121, recorded in 2014, was a non cash and was recorded as a finance cost in the statement of income (loss) and comprehensive income (loss). This fair value adjustment is being accreted to income over the life of the loans.

8. Property and equipment

The movement in the net carrying amounts for each class of property and equipment for the years ending December 31, 2015 and 2014 is outlined below:

		2015		2014
Owned:				
Equipment and cellular material processors				
Carrying amount at the beginning of the year	$	**1,499,759**	$	1,667,102
Additions		**119,803**		116,887
Reclassification		**1,517,318**		-
Depreciation		**(325,690)**		(284,230)
Carrying amount at the end of the year	$	**2,811,190**	$	1,499,759
Vehicles				
Carrying amount at the beginning of the year	$	**10,273**	$	23,466
Depreciation		**(1,532)**		(13,193)
Carrying amount at the end of the year	$	**8,741**	$	10,273
Computer equipment and software				
Carrying amount at the beginning of the year	$	**19,943**	$	9,113
Additions		**5,832**		10,520
Reclassification		**-**		4,763
Depreciation		**(7,717)**		(4,453)
Carrying amount at the end of the year	$	**18,058**	$	19,943
Furniture and fixtures and leasehold improvements				
Carrying amount at the beginning of the year	$	**5,669**	$	9,301
Additions		**1,075**		583
Depreciation		**(560)**		(4,215)
Carrying amount at the end of the year	$	**6,184**	$	5,669
Equipment Under Construction*				
Carrying amount at the beginning of the year	$	**1,317,695**	$	559,823
Additions		**564,977**		757,872
Reclassification		**(1,517,318)**		-
Carrying amount at the end of the year	$	**365,354**	$	1,317,695

* Equipment under construction is not depreciated until it goes into service

		2015		2014
Summary owned:				
Carrying amount at the beginning of the year	$	**2,853,339**	$	2,268,805
Additions		**691,687**		885,862
Reclassification		**-**		4,763
Depreciation		**(335,499)**		(306,091)
Carrying amount at the end of the year	$	**3,209,527**	$	2,853,339

8. Property and equipment *(continued)*

Leased:		**2015**		2014
Computer equipment and software				
Carrying amount at the beginning of the year	**$**	**-**	$	6,549
Reclassification		**-**		(4,763)
Depreciation		**-**		(1,786)
Carrying amount at the end of the year	**$**	**-**	$	-
Vehicles and equipment				
Carrying amount at the beginning of the year	**$**	**189,532**	$	221,635
Additions		**114,370**		-
Reclassification		**-**		-
Depreciation		**(36,361)**		(32,103)
Carrying amount at the end of the year	**$**	**267,541**	$	189,532
Summary leased:				
Carrying amount at the beginning of the year	**$**	**189,532**	$	228,184
Additions		**114,370**		-
Reclassification		**-**		(4,763)
Depreciation		**(36,361)**		(33,889)
Carrying amount at the end of the year	**$**	**267,541**	$	189,532
Summary:				
Carrying amount at the beginning of the year	**$**	**3,042,871**	$	2,496,989
Additions		**806,057**		885,862
Depreciation		**(371,860)**		(339,980)
Carrying amount at the end of the year	**$**	**3,477,068**	$	3,042,871

For the year ended December 2015, the Company capitalized labour costs related to equipment under construction of approximately $192,000 (2014 – 91,000)

9. Intangibles

		2015		2014
Foaming agent technology	**$**	**315,000**	$	315,000
Process licenses		**141,110**		141,110
Trademarks		**9,006**		9,006
	$	**465,116**	$	465,116

Intangible assets consist of foaming agent technology, licenses for cellular concrete processes and trademarks registered in Canada and the United States.

These intangible assets have an indefinite useful life.

10. Bank operating loan

The bank operating loan as at December 31, 2015 and 2014 is outlined below:

		2015		2014
Bank operating loan	**$**	**-**	$	1,110,000

On May 25, 2015, CEMATRIX (CANADA) INC., pursuant to a new working capital financing agreement with Tallinn Capital (see note 12), used a portion of the proceeds to repay a credit facility with a Canadian chartered bank ("Credit Facility") and the Credit Facility was closed.

11. Trade and other payables

Trade and other payables consist of the following components as at December 31, 2015 and 2014:

		2015		2014
Trade payables	**$**	**1,477,157**	$	1,688,864
Accrued interest		**26,222**		7,083
Other accruals		**489,460**		109,522
Payroll remittance and goods & services tax		**111,395**		122,023
	$	**2,104,234**	$	1,927,492

12. Factoring Liability

The factoring liability as at December 31, 2015 and 2014 is outlined below:

		2015		2014
Factoring liability	**$**	**703,462**	$	-

In May 2015, CEMATRIX (CANADA) INC., entered into a receivable purchase agreement with Tallinn Capital Partners Corp ("Tallinn Capital"), as part of a working capital financing agreement (see note 13), which is available for the purchase by Tallinn Capital of up to $1,250,000 of specific trade receivable invoices. For qualifying sales invoices ("Factored Receivables"), which are purchased under the receivable purchase agreement, CEMATRIX (CANADA) INC. receives 80% of the value of the specific sales invoice at the time of purchase and 20% when the sales invoice is collected by Tallinn Capital. A discount rate of 2% (reduced from 2.25% in September 2015) is charged for the first 30 days that the sales invoice is outstanding, with a further daily discount rate of 0.067% (reduced from 0.075% in September 2015) until the sales invoice is collected. Tallinn Capital may, at its sole discretion, require that CEMATRIX (CANADA) INC. repurchase any Factored Receivables that are not collected within 90 days of the sales invoice date at a price equal to the outstanding amount thereof. CEMATRIX (CANADA) Inc. retains the responsibility for collection and any foreign exchange fluctuation of the Factored Receivables.

For accounting purposes, the Factored Receivable continues to be recorded in trade receivables and the financing fees in finance costs.

13. Mezzanine Loan

On May 22, 2015, CEMATRIX (CANADA) INC., entered into a new financing agreement with Tallinn Capital Mezzanine Limited Partnership through its general partner Tallinn Capital for up to $2,000,000 of working capital financing to replace its Credit Facility.

The agreement with Tallinn Capital consists of a mezzanine loan of $750,000 (the "Mezzanine Loan") and a receivable purchasing agreement for the sale of up to $1,250,000 of trade receivables (collectively, the "Tallinn Financing").

The proceeds from the Mezzanine Loan were used to repay the Credit Facility and to provide working capital financing.

The Mezzanine Loan, bears interest at 16.5%, payable monthly in arrears, and matures on April 30, 2016. This loan is secured by $1,000,000 in current quality receivables (accounts that have been outstanding for less than 90 days) of the Corporation. The Company has the option to make prepayments at any time after October 31, 2015 and prior to maturity in multiples of $250,000. As part of this financing the Corporation must maintain a working capital ratio at a minimum of 1.2 and a minimum working capital level of $1,000,000. As at December 31, 2015, the Company was in compliance with each of these covenants.

The Receivable Purchase Agreement, which is available on the purchase of specific trade receivable invoices, is for up to $1,250,000 and is used for working capital financing (see note 5).

The Tallinn Financing is secured by corporate guarantees by the Company and CEMATRIX (USA) INC. and general security agreements providing a floating first charge over all present and after acquired personal property of the Company, CEMATRIX (CANADA) INC. and CEMTRIX (USA) INC.

14. Long term debt

Long term debt consists of the following components as at December 31, 2015 and 2014:

	Maturity	Interest rate	2015	2014
BDC Financing				
Loan 1	December 1, 2016	Floating	$ **85,800**	$ 171,600
Loan 3	October 1, 2020	Floating	**937,356**	1,044,282
			1,023,156	1,215,882
Secured Debenture	February 11, 2017	Fixed	**1,000,000**	1,000,000
			2,023,156	2,215,822
Less current portion			**(286,662)**	(286,662)
			$ 1,736,494	$ 1,929,220

BDC Financing:

In May 2012, the Company`s wholly owned subsidiary, CEMATRIX (Canada) Inc., entered into an agreement with the Business Development Bank of Canada (“BDC”) which provided working capital and capital expenditure financing (“BDC Financing”).

Loan 1 - This loan of $430,000 was fully drawn down in 2012. The proceeds were used in 2012 to repay certain loans and to support working capital. The interest rate on the loan is variable and based on the BDC floating base rate, currently set at 4.7% plus 1.71%. The loan is repayable over four years, commencing on July 1, 2012, with payments of principal of $14,300 required from July to December of each year. Interest is payable monthly.

Loan 3 – This loan of $1,406,000 (the “BDC Capital Financing”) was fully drawn down in 2015. The proceeds from the loan were used to support equipment additions and has been drawn down as these expenditures were incurred. The interest rate is variable and is based on the BDC floating base rate, currently at 4.7%, plus 1.75%. The loan is repayable over seven years, commencing with payments of principal on November 1, 2013 of $33,443 and on December 31, 2013 of $33,477 and payments of principal of $33,477 required from July to December of each year thereafter. Interest is payable monthly.

The BDC Financing loans may be prepaid, on each anniversary date, up to 15% of the then outstanding principal amount but if not used the prepayment privilege for that anniversary date ceases. In addition to the annual privilege the Company may prepay all or part of the principal outstanding plus any interest owing up to the time of prepayment plus an indemnity equal to three months interest on the prepaid principal at the floating rate then applicable if the loan is at floating rates, or if the loan is at a fixed rate, the sum of three months interest on the prepaid principal at the fixed interest rate then applicable and an interest differential relative to current fixed rate loans of the BDC.

The BDC Financing is secured with a General Security Agreement providing a first security interest in the Company’s current owned equipment and new equipment acquired pursuant to the capital loan and a security interest in all present and after acquired personal property of the Company subject only to lender charges on receivables and inventory in support of the Company’s line of credit and future charges on specific equipment to a creditor for financing the purchase or lease thereof.

14. Long term debt *(continued)*

Secured Debenture:

In February 2014 the Company issued a secured debenture for $1,000,000 ("Secured Debenture"). The Secured Debenture bears interest of 9%, payable monthly, and is repayable in full in 3 years. The Company can prepay the full amount of the Secured Debenture. Any prepayment in the first year includes an additional interest payment equal to 9% of the principal amount prepaid less any interest paid to the date of prepayment; any prepayment made in the second year will include and additional interest payment equal to 18% of the prepayment amount less 1.5% of the interest paid to the date of the prepayment; any prepayment after the second year is without any additional interest payment. Management assessed whether this prepayment option was an embedded derivative that should be accounted for separately from the host contract. Management determined that the economic characteristics and risks of the prepayment feature were closely related to those of the host debt contract and, therefore, no embedded derivative was identified.

The Secured Debenture is secured by the Company's currently owned equipment and new equipment acquired, subject to the priority of the BDC Financing. The Secured Debenture is further secured by all present and after acquired personal property of the Company subject only to lender charges on receivables and inventory in support of the Tallinn Financing and any charges on specific equipment for financed or leased.

15. Finance lease obligations

Finance leases, which relate to the purchase of equipment, bear interest at 6.5% to 16.1% and are repayable in blended monthly payments and mature from January 2016 to May 2021. The leases are secured by the leased assets which have a carrying value of $267,541 (2014 - $189,532). The annual future commitments under the leases are as follows:

2016	**$**	69,339
2017		67,012
2018		31,254
2019		51,052
2020 & beyond		7,202
		225,859
Less imputed interest		(28,649)
		197,210
Current portion		(56,247)
	$	**140,963**

Finance lease obligations of $114,370 were made during the year ended December 31, 2015 ($nil during the year ended December 31, 2014)

16. Share capital

(a) Authorized

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

(b) Issued

The following table summarizes the changes in the issued common shares of the Company for the years ended December 31, 2015 and 2014:

	2015		2014	
	Number Of Shares	**$ Amount**	Number Of Shares	$ Amount
Common shares, beginning of year	**34,025,994**	**$7,396,309**	33,465,994	$7,160,015
Common shares issued *(i)*	**150,000**	**22,500**	560,000	84,000
Reclassification of contributed surplus *(i)*	**-**	**15,721**	-	39,169
Reclassification of share acquisition loans *(note 7)*	**-**	**-**	-	113,125
Common shares, end of year	**34,175,994**	**$7,434,530**	34,025,994	$7,396,309

(i) Common shares issued

During the year ended December 31, 2015, 150,000 common shares were issued on the exercise of employee stock options, proceeds of $22,500 were received by the Company and the related non-cash stock based compensation previously charged to contributed surplus was reclassified to share capital.

During the year ended December 31, 2014, 560,000 common shares were issued on the exercise of employee stock options, proceeds of $84,000 were received by the Company and the related non-cash stock based compensation previously charged to contributed surplus was reclassified to share capital.

17. Cost of sales

Cost of sales consists of the following components for the years ended December 31, 2015 and 2014:

	2015	2014
Manufacture of cellular concrete		
Materials	**$ 6,785,166**	$ 4,228,109
Direct labour	**1,774,520**	1,221,511
Variable expenses	**1,239,132**	810,015
Fixed overhead	**300,009**	241,355
Depreciation	**353,542**	322,562
	$ 10,452,369	$ 6,823,552

18. Finance costs

The finance costs incurred for the years ended December 31, 2015 and 2014 are as follows:

		2015		2014
Interest				
BDC Financing	**$**	**78,566**	$	83,249
Secured Debenture		**90,000**		79,890
Finance lease obligations		**10,951**		15,130
Mezzanine loan		**74,589**		-
Factoring Discount		**128,620**		-
Bank operating loan		**12,753**		24,250
Other		**6,409**		5,250
		401,888		207,769
Accretion of fair value adjustment on share acquisition loans *(note 7)*		**(1,868)**		-
Non-cash fair value adjustment on share acquisition loans *(note 7)*		**-**		25,121
	$	**400,020**		232,890

19. Other income

Other income for the years ended December 31, 2015 and 2014 consists of the following:

		2015		2014
Foreign exchange income	**$**	**45,820**	$	13,046

20. Taxes

The components of the Company's tax expense which has been recorded in these consolidated financial statements are as follows:

		2015		2014
Income (loss) before taxes	**$**	**1,857,179**	$	(597,646)
Combined statutory tax rate		**26.0%**		25.0%
Computed "expected" tax expense		**482,867**		(149,412)
Differences resulting from:				
Non-cash stock based compensation		**58,253**		81,148
Non-cash fair value adjustment on share acquisition loans		**-**		6,280
Change in enacted rate and other		**(273,394)**		18,031
Change in deferred tax assets not recognized		**(214)**		17,095
Provision (recovery) of deferred taxes	**$**	**267,512**	$	(26,858)

The statutory tax rate increased from 25% to 26% due to an increase in the Alberta provincial tax rate on July 1, 2015.

20. Taxes *(continued)*

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

		2015		2014
Deferred tax assets				
Non-capital loss carry forwards	**$**	**398,965**	$	966,633
Cumulative eligible capital		**96,408**		68,369
Finance lease obligations		**51,275**		35,624
Other		**288,212**		68,134
		834,860		1,138,760
Deferred tax liabilities				
Property and equipment		**(69,561)**		(110,386)
Intangibles		**(120,930)**		(116,279)
		(190,491)		(226,665)
Deferred tax assets not recognized		**(158,442)**		(158,656)
Deferred tax asset	**$**	**485,927**	$	753,439

Deferred tax assets are recorded only to the extent that future taxable income will be available against which the deferred tax asset can be offset. Management estimates future taxable income using forecasts based on the best available current information. Based on current estimates, there is currently insufficient evidence that $158,442 (2014 - $158,656) of deferred tax asset will be recovered. The deferred tax asset will only be recognized with improved certainty and quantification of taxable profits related to these assets.

The Company has Canadian non-capital loss carry forwards which expire as follows: 2029 - $354,742; 2030 – $896,355; 2031 – $5,435 and 2032 - $9,124. The Company also has U.S. net operating losses of U.S. $269,307 which expire between 2033 and 2034.

21. Income (loss) per common share

The number of common shares included in the computation of basic and diluted loss per common share for the years ended December 31, 2015 and 2014 is as follows:

	2015	2014
Weighted average common shares outstanding - basic	**34,136,542**	33,593,336
Effect of stock options	**389,713**	-
Weighted average common shares outstanding – diluted	**34,526,255**	33,593,336

The stock options for the years ended December 31, 2014 have no dilutive effect as the Company incurred a loss in this year.

22. Non-cash stock based compensation

The Company has an option plan for the issue of up to 10% of the issued and outstanding common shares of the Company. All options that are outstanding will expire upon maturity, or earlier, if the optionee ceases to be a director, officer, employee or consultant 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 consultants important to the continued operation and growth of the Company.

At December 31, 2015, the Company had 3,141,667 shares reserved for the issuance of stock options (December 31, 2014 – 3,090,000).

Options issued to employees and directors generally vest as to one third immediately on grant and one third on each of next two anniversary dates. The options issued to The Howard Group, the Company's investor relation firm, vested as to one quarter every three months from the date of grant on April 1, 2013.

The following table summarizes the changes in options for the years ended December 31, 2015 and 2014:

	2015		2014	
	Number of Options	**Weighted average price**	Number of Options	Weighted average price
Outstanding, beginning of year	**3,090,000**	**$0.20**	1,665,000	$0.15
Granted	**250,000**	**$0.19**	2,640,000	$0.21
Exercised	**(150,000)**	**$0.15**	(560,000)	$0.15
Expired	**(10,000)**	**$0.24**	(655,000)	$0.15
Forfeited	**(38,333)**	**$0.24**	-	-
Outstanding, end of year	**3,141,667**	**$0.20**	3,090,000	$0.20
Exercisable, end of year	**2,400,000**	**$0.19**	1,930,000	$0.18

During the year ended December 31, 2015, 100,000 options were issued to a new employee with an exercise price of $0.20, for a five year term and vesting as to one third on each of the first three anniversaries of the option grant date; and 150,000 options were issued to a director with an exercise price of $0.19, for a five year term and vesting as to one third immediately and one third on each of the next two anniversaries of the option grant date.

During the year ended December 31, 2014, 900,000 options were issued to certain directors and an officer with an exercise price of $0.145, immediate vesting and for a five year term and 1,740,000 options were issued to employees with an exercise price of $0.24, vesting over two years, with one third immediately and one third on the next two anniversary dates, and for a five year term.

22. Non-cash stock based compensation *(continued)*

There are 741,667 options that have not vested as at December 31, 2015 (December 31, 2014 – 1,160,000 options).

The following table summarizes the options to acquire common shares outstanding as at December 31, 2015:

Grant Date	Number Options	Exercise Price $	Weighted average remaining life (years)	Expiry Date
April 1, 2013	300,000	0.150	0.25	April 1, 2016
March 26, 2014	900,000	0.145	3.24	March 26, 2019
October 22, 2014	1,691,667	0.240	3.81	October 22, 2019
March 5, 2015	100,000	0.200	4.18	March 5, 2020
April 15, 2015	150,000	0.190	4.29	April 15, 2020
	3,141,667			

Non-cash stock based compensation for the years ended December 31, 2015 and 2014 of $224,049 and $324,590, respectively, were recognized in the consolidated statement of income (loss) and comprehensive income (loss) with an offsetting amount charged to contributed surplus. Non-cash stock based compensation 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:

	2015	2014
Estimated per share fair value per option	$0.18	$0.14 - $0.26
Risk-free interest rate	0.77% - 0.92%	1.28% - 1.51%
Expected life	5 years	5 years
Expected volatility in stock price	165% - 172%	151% - 168%
Expected annual dividend yield	nil	nil
Estimated forfeiture rate	nil	nil

The options issued to The Howard Group in 2013 pursuant their investor relations agreement have been valued at the fair value of the services provided.

At December 31, 2015 and 2014, the Company reclassified $9,703 and $45,814, respectively, from contributed surplus to deficit related to non-cash stock based compensation for option grants that had expired or were forfeited without being exercised. In addition, in 2015 and 2014 the Company reclassified $15,721 and $39,169, respectively, from contributed surplus to share capital related to non-cash stock based compensation for option grants that were exercised in 2015 and 2014, respectively.

23. Change in non-cash working capital

The changes in non-cash working capital items - asset (increase) decrease and liability increase (decrease) - are outlined below for the years ended December 31, 2015 and 2014.

		2015		2014
Trade and other receivables	**$**	**(321,782)**	$	(2,721,889)
Inventory		**(76,273)**		14,773
Prepaid expenses and deposits		**13,768**		(13,293)
Trade and other payables		**176,742**		1,461,008
	$	**(207,545)**	$	(1,259,401)

Classification in the consolidated statements of cash flows:

Operating activities	**$**	**(207,545)**	$	(1,279,401)
Investing activities	**$**	**-**	$	20,000

24. Related party transactions

During the year ended December 31, 2015, the Company incurred legal fees from a firm which employs one of the directors of the Company in the amount of $17,074 ($17,108 for the year ended December 31, 2014) of which $nil is in trade and other payables as at December 31, 2015 (2014 - $2,805).

There were no other significant related party transactions.

Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the years ended December 31, 2015 and 2014 were as follows:

		2015		2014
Short term employment benefits	**$**	**624,650**	$	**431,237**
Non-cash stock based compensation *(note 22)*		**121,155**		**226,538**
	$	**745,805**	$	**657,775**

25. Financial instruments and risk management

Set out below is a comparison, by category, of the carrying amounts and fair values of all of the Company financial instruments that are carried in the consolidated financial statements and how the fair value of financial instruments are measured.

Fair values

The fair values of cash and cash equivalents, term deposits, trade and other receivables, bank overdraft, bank operating loan, trade and other payables, factored liability and mezzanine loan approximate their carrying values due to the relatively short periods to maturity of these instruments. The fair value of the BDC Financing loans approximate its carrying value as the debt rate floats with prime. The fair value of the share acquisition loans has been determined using the effective interest rate method. The fair value of the secured debenture approximates its carrying value as the interest rate is a market rate for similar instruments.

25. Financial instruments and risk management *(continued)*

Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The Company classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in level 1. Prices in level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place.

Level 3 – Valuations in this level are those with inputs for the assets or liabilities that are not based on observable market date.

The Company's cash and cash equivalent and term deposit are measured based on level 1. There were no transfers between level 1, 2 and 3 inputs during the year.

Risk management

The Company's activities are exposed to a variety of financial risks: interest rate risk, credit risk, liquidity risk and foreign exchange 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 BDC Financing loans, which had a balance of $1,023,156 outstanding at December 31, 2015, are subject to floating market rates. Based on the floating rate debt outstanding as at December 31, 2015, a 1% increase/decrease in interest rates would result in a decrease/increase in net loss attributable to common shareholders of approximately $7,675.

(b) Credit Risk
Financial instruments that subject the Company to credit risk consist primarily of cash, trade receivables and the share acquisition loans. The Company manages credit risk using credit approval and monitoring practices. At December 31, 2015, 5 customers accounted for approximately 90% of trade receivables (at December 31, 2014, 7 customers accounted for approximately 90% of trade receivables). (See Note 5 for details of credit policy and aging of outstanding trade receivables at December 31, 2015 and 2014). At December 31, 2015, the Company had $1,450,785 of cash and cash equivalents (2014 - $50,019), a $70,000 term deposit and $67,247 of fair valued share acquisition loans that are outstanding with two officers, and a former officer, of the Company.

25. Financial instruments and risk management *(continued)*

(c) Liquidity Risk

Liquidity risk management involves maintaining sufficient cash and cash equivalents and the availability of working capital financing.

The table below summarizes the maturity profile of the Company's financial liabilities at December 31, 2015 and 2014 based on contractual undiscounted payments.

	Less than 1 year	1 to 2 years	2 to 5 years	Total
As at December 31, 2015				
Trade and other payables	$ **2,104,234**	$ **-**	$ **-**	$ **2,104,234**
Factored liability	**703,462**	**-**	**-**	**703,462**
Mezzanine Loan	**750,000**	**-**	**-**	**750,000**
Long-term debt	**286,662**	**1,200,862**	**535,632**	**2,023,156**
Finance lease obligations	**56,247**	**58,540**	**82,423**	**197,210**
	$ **3,900,605**	$ **1,259,402**	$ **618,055**	$ **5,778,062**
As at December 31, 2014				
Bank overdraft	$ 194,154	$ -	$ -	$ 194,154
Bank operating loan	1,110,000	-	-	1,110,000
Trade and other payables	1,927,492	-	-	1,927,492
Long-term debt	286,662	286,662	1,642,558	2,215,882
Finance lease obligations	55,542	39,394	47,561	142,497
	$ 3,573,850	$ 326,056	$ 1,690,119	$ 5,590,025

(d) Foreign Exchange Risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure relates to trade receivables, and the collection thereof, denominated in $US dollars ("USD") and the operations of its US subsidiary which are predominantly in USD. The Company does not hedge these items as the timing of related transactions is not certain.

As at December 31, the following balances are denominated in USD:

		2015	2014
Cash and cash equivalents	**$**	**213,748**	**37,247**
Trade and other receivables	**$**	**55,842**	**138,024**
Inventory	**$**	**1,906**	**1,906**
Prepaid expenses and deposits	**$**	**9,805**	**14,601**
Trade and other payables	**$**	**22,937**	**56,269**

The Company's primary foreign exchange sensitivity is in relation to movements of the USD against the Canadian dollar. Based on USD balances as at December 31, 2015 a 5% increase/decrease of the USD against the Canadian dollar would result in an increase/decrease in total comprehensive loss of approximately $17,925.

26. Capital management

Management defines capital as the Company's total shareholders' equity, its long term debt and finance lease obligations. The Board of Directors does not establish a quantitative return on capital for management, but rather promotes year over year sustainable profitable growth. The 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 reviews its capital management approach on an ongoing basis. There were no material changes to this approach during the year ended December 31, 2015. The Company is subject to externally imposed capital requirements on its factoring and financing arrangements with Tallinn Capital. As at December 31, 2015, the Company is in compliance with its debt covenants (see Note 13).

Total capitalization

	2015	2014
Long term debt (*Note 14*)	**$ 2,023,156**	$ 2,215,822
Finance lease obligations *(Note 15)*	**197,210**	142,497
Total debt	**2,220,366**	2,358,319
Shareholders' equity	**5,482,561**	3,669,617
	$ 7,702,927	$ 6,027,936

27. Commitments

As at December 31, 2015, the Company had annual operating lease commitments for facilities of $284,901 for 2016 and $277,168 for the period 2017 to 2019. There are no material other operating leases

Operating lease payments, net of sub lease rental, recognized as expenses were $265,282 for the year ended December 31, 2015 ($199,194 for the year ended December 31, 2014).

28. Geographical segmented information

The Company's primary business is the supply and placement of cellular concrete. It currently markets its services in Canada and the U.S. The tables below, present the sales to external customers for the years ended December 31 2015 and 2014 and the total non-current assets attributable to the Company's geographical segments as at December 31, 2015 and 2014:

		2015		2014
Sales to external customers*				
Canada	**$**	**13,478,187**	$	8,042,166
U.S.		**1,901,600**		670,027
	$	**15,379,787**	$	8,712,193

		2015		2014
Total non-current assets				
Canada	**$**	**4,296,985**	$	4,319,311
U.S.		**6,881**		9,362
	$	**4,303,866**	$	4,328,673

* Includes sales to one customer of $5,247,374 in 2015

29. Subsequent event

On February 26, 2015, CEMATRIX's wholly owned subsidiary, CEMATRIX (Canada) Inc. entered into an agreement with the Canadian Western Bank (the "Bank") for a $2,000,000 demand operating loan.The demand operating loan will bear interest at an amount equal to the greater of 4.70% or 2% above the Bank's prime lending rate, and will be secured by a general security agreement providing a first secured interest in the receivables and inventory of CEMATRIX (Canada) Inc. and guaranteed by the Company with the Company granting a general security agreement providing a first secured interest in all present and after acquired property of the Company.

The demand operating loan will be used to repay a mezzanine loan through Tallinn Capital Mezzanine Limited Partnership with a rate of 16.5% and to finance day-to-day operations of CEMATRIX (Canada) Inc.