CEMATRIX CORPORATION
Consolidated Financial Statements
(in Canadian dollars)
June 30, 2014

Management's Responsibility for Financial Reporting and Notice of No Auditor Review of the Interim Consolidated Financial Statements for the Three and Six Months Ended June 30, 2014

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 to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee reviews the interim consolidated financial statements and reports its findings to the Board for approval.

The Company's external auditor MNP LLP, an independent firm of Chartered Accountants, has not performed a review of these interim consolidated financial statements.

August 6, 2014

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

CEMATRIX CORPORATION

Consolidated Statements of Financial Position

As at June 30, 2014 (unaudited) and December 31, 2013 (audited)
(in Canadian Dollars)

		2014		2013
ASSETS				
Current Assets				
Cash and cash equivalents	**$**	**38,443**	$	17,017
Trade and other receivables *(note 5)*		**3,296,647**		1,537,197
Inventory *(note 6)*		**597,855**		526,470
Prepaid expenses and deposits		**76,187**		76,117
		4,009,132		2,156,801
Non Current Assets				
Property and equipment		**2,902,658**		2,496,989
Intangibles		**465,116**		465,116
Deferred taxes		**852,184**		726,581
		4,219,958		3,688,686
Total Assets	**$**	**8,229,090**	$	5,845,487
LIABILITIES and EQUITY				
Current Liabilities				
Bank overdraft	$	**89,521**	$	53,109
Bank operating loan *(note 7)*		**945,000**		435,000
Trade and other payables *(note 8)*		**1,493,180**		466,484
Current portion of long term debt *(note 9)*		**286,662**		286,662
Current portion of finance lease obligations		**54,173**		54,287
		2,868,536		1,295,542
Non Current Liabilities				
Long term debt *(note 9)*		**2,021,577**		673,761
Finance lease obligations		**115,392**		142,473
		2,136,969		816,234
Total Liabilities		**5,005,505**		2,111,776
SHAREHOLDERS' EQUITY				
Share capital *(note 10)*		**7,160,015**		7,160,015
Contributed surplus		**490,962**		361,198
Cumulative translation adjustment account		**1,725**		12,831
Deficit		**(4,429,117)**		(3,800,333)
Total Shareholders' Equity		**3,223,585**		3,733,711
Total Liabilities and Shareholders' Equity	$	**8,229,090**	$	5,845,487

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 three and six months ending at June 30 (unaudited)
Canadian Dollars

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Revenue *(note 21)*	**$ 3,070,504**	$ 2,790,218	**$ 3,331,464**	$ 4,788,060
Cost of sales *(note 12)*	**2,377,013**	2,130,819	**2,872,901**	3,687,125
Gross margin	**693,491**	659,399	**458,563**	1,100,935
Operating expenses				
General and administrative	**244,112**	289,542	**640,809**	516,712
Sales, marketing and engineering	**262,643**	207,315	**487,020**	405,478
Total operating expenses	**506,755**	496,857	**1,127,829**	922,190
Operating income (loss)	**186,736**	162,542	**(669,266)**	178,745
Other income (expenses) *(note 13)*	**3,776**	(1,485)	**4,793**	(1,789)
Finance costs *(note 14)*	**(50,532)**	(20,273)	**(89,914)**	(44,746)
Income (loss) before income taxes	**139,980**	140,784	**(754,387)**	132,210
Provision of deferred taxes	**(48,151)**	(41,244)	**125,603**	(41,421)
Net Income (loss) attributable to the common shareholders	**91,829**	99,540	**(628,784)**	90,789
Unrealized foreign exchange gain on translation of foreign subsidiary	**(9,161)**	1,570	**(11,106)**	5,066
Total comprehensive Income (loss) for the period	**$ 82,668**	$ 101,110	**$ (639,890)**	$ 95,855
Income (loss) per common share *(note 15)*				
Basic	**$ -**	$ -	**$ (0.02)**	$ -
Fully Diluted	**$ -**	$ -	**$ (0.02)**	$ -
Weighted average number of common shares *(note 15)*				
Basic	**33,465,994**	33,465,994	**33,465,994**	33,465,994
Fully Diluted	**33,465,994**	33,465,994	**33,465,994**	33,465,994

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

CEMATRIX CORPORATION

Consolidated Statements of Changes in Shareholders' Equity

For the three and six months ending June 30 (unaudited)
Canadian Dollars

	Share Capital	Share Purchase Warrants	Contributed Surplus	Cumulative Translation Adjustment Account	Deficit	Total Shareholders' Equity
Balance at January 1, 2014	**$ 7,160,015**	**$ -**	**$ 361,198**	**$ 12,831**	**$ (3,800,333)**	**$ 3,733,711**
Share-based payments *(note 16)*	**-**	**-**	**129,764**	**-**	**-**	**129,764**
Net loss attributable to common shareholders	**-**	**-**	**-**	**-**	**(720,613)**	**(720,613)**
Unrealized foreign exchange loss on translation of foreign subsidiary	**-**	**-**	**-**	**(1,945)**	**-**	**(1,945)**
Balance at March 31, 2014	**7,160,015**	**-**	**490,962**	**10,886**	**(4,520,946)**	**3,140,917**
Net income attributable to common shareholders	**-**	**-**	**-**	**-**	**91,829**	**91,829**
Unrealized foreign exchange loss on translation of foreign subsidiary	**-**	**-**	**-**	**(9,161)**	**-**	**(9,161)**
Balance at June 30, 2014	**$ 7,160,015**	**$ -**	**$ 490,962**	**$ 1,725**	**$ (4,429,117)**	**$ 3,223,585**
Balance at January 1, 2013	$ 7,160,015	$ 88,877	$ 758,734	$ 994	$ (4,083,756)	$ 3,924,864
Expiration of warrants (note 11)		(88,877)	88,877			-
Share-based payments (note 16)	-	-	2,442	-	-	2,442
Net loss attributable to common shareholders	-	-	-	-	(8,751)	(8,751)
Unrealized foreign exchange gain on translation of foreign subsidiary	-	-	-	3,496	-	3,496
Balance at March 31, 2013	7,160,015	-	850,053	4,490	(4,092,507)	3,922,051
Share-based payments (note 16)	-	-	6,370	-	-	6,370
Net income attributable to common shareholders	-	-	-	-	99,540	99,540
Unrealized foreign exchange gain on translation of foreign subsidiary	-	-	-	1,570	-	1,570
Balance at June 30, 2013	$ 7,160,015	$ -	$ 856,423	$ 6,060	$ (3,992,967)	$ 4,029,531

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

CEMATRIX CORPORATION
Consolidated Statements of Cash Flows
For the three and six months ending June 30 (unaudited)
Canadian Dollars

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Cash generated from (used in):				
Operating activities				
Net income (loss) attributable to common shareholders	**$ 91,829**	$ 99,540	**$ (628,784)**	$ 90,789
Add (deduct) non-cash items				
Provision of deferred taxes	**48,151**	41,244	**(125,603)**	41,421
Depreciation	**85,425**	76,913	**168,936**	153,172
Share-based payment expense *(note 16)*	**-**	6,370	**129,764**	8,812
Unrealized foreign exchange gain (loss) on translation of foreign subsidiary	**(9,161)**	1,570	**(11,106)**	5,066
	216,244	225,637	**(466,793)**	299,260
Net change in non-cash working capital items *(note 17)*	**(1,079,527)**	136,433	**(804,209)**	406,011
Cash generated from (used in) operations	**(863,283)**	362,070	**(1,271,002)**	705,271
Investing activities				
Purchase of property and equipment	**(405,389)**	(136,597)	**(574,605)**	(252,822)
Cash generated from (used in) investing activities	**(405,389)**	(136,597)	**(574,605)**	(252,822)
Financing activities				
Proceeds from (repayments of) bank operating loan	**945,000**	(320,000)	**510,000**	(440,000)
Proceeds from BDC Financing	**241,309**	262,065	**347,816**	262,065
Proceeds from Secured Debenture	**-**	-	**1,000,000**	-
Repayment of finance lease obligations	**(13,659)**	(12,661)	**(27,195)**	(30,868)
Cash generated from (used in) financing activities	**1,172,650**	(70,596)	**1,830,621**	(208,803)
Increase (decrease) in cash	**(96,022)**	154,877	**(14,986)**	243,646
Cash, beginning of period	**44,944**	(183,372)	**(36,092)**	(272,141)
Cash, end of period	**$ (51,078)**	$ (28,495)	**$ (51,078)**	$ (28,495)
Cash				
Cash	**$ 38,443**	$ 29,436	**$ 38,443**	$ 29,436
Bank overdraft	**(89,521)**	(57,931)	**(89,521)**	(57,931)
Cash, end of period	**$ (51,078)**	$ (28,495)	**$ (51,078)**	$ (28,495)
Finance costs paid during the period	**$ 47,645**	$ 20,593	**$ 87,028**	$ 45,054

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 oil and gas sector in Western Canada and infrastructure construction in Western Canada, Ontario Canada and in the United States.

The consolidated financial statements of the Company for the quarter and six months ended June 30, 2014 were authorized for issue in accordance with a resolution of the Board of Directors dated August 6, 2014.

2. Basis of preparation

Statement of compliance
These consolidated financial statements for the three and six months ended June 30, 2014 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

Basis of measurement
These consolidated financial statements are stated in Canadian dollars and were prepared under the historical cost convention except for share-based payment transactions 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.

3. Significant accounting judgements, estimates and assumptions

The preparation of 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.

The key sources of judgements, estimates and assumptions that have a significant risk of causing material adjustment to the amounts recognized in the consolidated financial statements are described in Note 3 of the audited consolidated financial statements for the year ended December 31, 2013. There have been no changes since that date.

(in Canadian dollars)

4. Significant accounting policies

The significant accounting policies of the Company are outlined in note 4 of the audited consolidated financial statements for the year ended December 31, 2013. There have been no changes since that date.

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 July 1, 2014 or later periods. The standards impacted that are applicable to the Company are as follows:

IFRS 2 Share-based payments - the amendments to IFRS 2, issued in December 2013 clarify the definition of "vesting conditions", and separately define a "performance condition" and a "service condition". A performance condition requires the counterparty to complete a specified period of service and to meet a specified performance target during the service period. A service condition solely requires the counterparty to complete a specified period of service. The amendments are effective for share-based payment transactions for which the grant date is on or after July 1, 2014.

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. The amendments will only affect disclosure and are effective for annual periods beginning on or after July 1, 2014.

IFRS 9 Financial instruments – in July 2014, the ISAB issued IFRS 9 to replace IFRS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 includes a logical model for classification and measurement, a single forward-looking expected loss impairment model and a substantially-reformed approach to hedge accounting. IFRS 9 is effective for years beginning on or after January 1, 2018

IFRS 15 Revenue from contracts with customers – in May 2014, the IASB issued IFRS 15, a new standard which provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 is effective for years beginning on or after January 1, 2017.

The Company does not expect any material 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 June 30, 2014 and December 31, 2013:

	2014	2013
Trade receivables	**$ 3,118,895**	$ 1,239,183
Holdbacks	**156,795**	307,687
Other receivables	**63,637**	52,871
Allowance for doubtful accounts	**(42,680)**	(62,544)
	$ 3,296,647	$ 1,537,197

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. 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

(in Canadian dollars)

5. **Trade and other receivables** *(continued)*

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 was as follows as at June 30, 2014 and December 31, 2013:

		2014		2013
1-30 days	**$**	**1,900,486**	$	353,301
30-60 days		**647,947**		431,566
61-90 days		**222,265**		290,184
Greater than 90 days		**348,197**		164,132
	$	**3,118,895**	$	1,239,183

In determining the recoverable amount of a trade, holdbacks and other receivable, the Company performs a risk analysis considering the type and age of the outstanding receivable and the credit worthiness of the counterparties.

6. Inventory

Inventory consists of the following components as at June 30, 2014 and December 31, 2013:

		2014		2013
Raw materials (principally foaming agent)	**$**	**588,881**	$	516,418
Spare parts and marketing material		**8,974**		10,052
	$	**597,855**	$	526,470

Inventory expensed as part of cost of sales was $108,255 and $114,982, respectively, for the three and six months ending June 30, 2014 ($97,119 and $175,000, respectively for the same periods in 2013). There were no inventory write-downs in either 2014 or 2013.

7. Bank operating loan

The bank operating loan as at June 30, 2014 and December 31, 2013 is outlined below:

		2014		2013
Bank operating loan	**$**	**945,000**	$	435,000

The Company has a revolving demand credit facility ("Credit Facility") with a Canadian chartered bank which, when utilized by the Company, provides loans to finance working capital for periods of time. Under the Credit Facility, the bank will advance up to $1,000,000 ($1,500,000 during period April 1 to October 31) on trade receivables less than ninety days outstanding at the end of each month, (75% from companies resident in Canada and 90% from qualifying companies resident in the United States) and 50% of inventories (up to a maximum $250,000). Based on these restrictions the actual credit facility availability at June 30, 2014 was $1,500,000 (December 31, 2013 - $971,000) of which $945,000 had been drawn down at June 30, 2014 ($435,000 at December 31, 2013).

(in Canadian dollars)

7. Bank operating loan *(continued)*

The Company has an arrangement through Economic Development Canada to insure trade receivables for sales to qualified companies resident in the United States. The Company has completed a direct to pay of any insurance proceeds to the Company's bank. As a result of this arrangement the Company's bank has agreed to advance up to 90% of trade receivables from qualified companies resident in the United States on the Credit Facility.

Interest on the Credit Facility is at prime plus 2.25% (2013 – prime plus 2.25%). The security provided includes a General Security Agreement over all of the assets of the Company. Under the facility, the Company is required to maintain a debt to tangible net worth ratio of less than 1.75:1. The Company is in compliance with the terms of its covenant.

8. Trade and other payables

Trade and other payables consist of the following components as at June 30, 2014 and December 31, 2013:

	2014	2013
Trade payables	**$ 1,299,693**	$ 298,178
Accrued interest	**8,355**	5,470
Other accruals	**125,815**	114,014
Payroll remittance and goods & services tax	**59,317**	48,822
	$ 1,493,180	$ 466,484

9. Long term debt

Long term debt consists of the following components as at June 30, 2014 and December 31, 2013:

	Maturity	**Interest rate**	**2014**	2013
BDC Financing				
Loan 1	December 1, 2016	Floating	**$ 257,400**	$ 257,400
Loan 3	October 1, 2020	Floating	**1,050,839**	703,023
			1,308,239	960,423
Secured Debenture	February 11, 2017	9%	**1,000,000**	-
			2,308,239	960,423
Less current portion			**(286,662)**	(286,662)
			$ 2,021,577	$ 673,761

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 interest rate on the loan is variable and based on the BDC floating base rate, currently set at 5% 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.

(in Canadian dollars)

9. **Long term debt** *(continued)*

Loan 2 - In May 2013 this loan, of which $269,000 was outstanding, was superseded into Loan 3 below.

Loan 3- In May 2013, the Company's wholly owned subsidiary, CEMATRIX (Canada) Inc., entered into an agreement with the BDC for a new loan of $1,406,000 ("BDC Capital Financing"). The outstanding amount under the BDC Capital Financing is $1,050,839 at June 30, 2014 ($703,023 at December 31, 2013). The loan, of which $288,241 is undrawn, will be used to support planned equipment additions and will be drawn down as these expenditures are incurred. The interest rate is based on the BDC floating base rate, currently at 5%, plus 1.75%. The loan is repayable over seven years, commencing with payments of principal of $66,920 in 2013 and monthly payments of principal of $33,477 required from July to December of each year thereafter. Interest is payable monthly.

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.

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 Secured Debenture is secured by the Company's current 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 Company's line of credit and any charges on specific equipment for financing the purchase or lease thereof

10. Share capital

(a) Authorized

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

b) Issued

The issued common share of the Company at June 30, 2014 and December 31, 2013 are outlined below:

	Number Of Shares	**2014 $ Amount**	Number Of Shares	2013 $ Amount
Common shares, end of year	**33,465,994**	**$7,160,015**	33,465,994	$7,160,015

(c) Common shares

During the six months ended June 30, 2014 and the year ended December 31, 2013 no common shares were issued by the Company.

(d) Share acquisition loans

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

(in Canadian dollars)

11. Share purchase warrants

On January 22, 2013, the warrants issued by the Company in 2010 expired. No warrants were exercised and the value assigned to the warrants of $88,877 was reclassified to contributed surplus.

12. Cost of sales

Cost of sales consists of the following components for the three and six months ending June 30, 2014 and 2013:

	Three months ended June 30,				Six months ended June 30,			
		2014		2013		**2014**		2013
Materials	**$**	**1,687,554**	$	1,475,935	**$**	**1,803,609**	$	2,466,904
Direct labour		**287,230**		260,432		**433,934**		486,856
Variable expenses		**261,506**		235,607		**347,793**		418,665
Fixed overhead		**59,691**		84,874		**126,998**		167,262
Depreciation		**81,032**		73,971		**160,567**		147,438
	$	**2,377,013**	$	2,130,819	**$**	**2,872,901**	$	3,687,125

13. Other income (expenses)

Other expenses for the three and six months ending June 30, 2014 and 2013 consist of the following:

	Three months ended June 30,				Six months ended June 30,			
		2014		2013		**2014**		2013
Foreign exchange gains (losses)	**$**	**3,776**		**(1,485)**	**$**	**4,793**	$	**(1,789)**

14. Finance costs

The finance costs incurred for the three and six months ending June 30, 2014 and 2013 are as follows:

	Three months ended June 30,				Six months ended June 30,			
		2014		2013		**2014**		2013
Interest								
BDC Financing	**$**	**21,648**	$	12,117	**$**	**38,561**	$	25,041
Secured Debenture		**22,500**		-		**34,438**		-
Finance lease obligations		**4,030**		4,160		**8,183**		7,670
Bank operating loan		**1,370**		3,088		**6,018**		9,569
Other		**984**		908		**2,714**		2,466
	$	**50,532**	$	20,273	**$**	**89,914**	$	44,746

(in Canadian dollars)

15. Income (loss) per common share

The number of common shares included in the computation of basic and diluted loss per common share for the three and six months ending June 30, 2014 and 2013 is as follows:

	Three months ended June 30,		***Six months ended June 30,***	
	2014	2013	**2014**	2013
Weighted average shares outstanding - basic	**33,465,994**	33,465,994	**33,465,994**	33,465,994
Effect of stock options	**-**	-	**-**	-
Effect of share purchase warrants	**-**	-	**-**	-
	33,465,994	33,465,994	**33,465,994**	33,465,994

The stock options and the share purchase warrants for the three and six months ended June 30, 2014 and 2013 have no dilutive effect as their exercise prices were greater than the average trading prices of the Company's common shares during the periods.

16. Share-based payments

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 consultants 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 June 30, 2014, the Company had 781,599 shares reserved for the issuance of stock options (December 31, 2013 – 1,681,599).

In the six months ended June 30, 2014 the Company issued 900,000 options to directors and employees. In the six months ended June 30, 2013 the Company issued 300,000 options to The Howard Group, the Company's investor relation firm.

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 directors and employees in 2014 vested immediately and 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 six months ended June 30, 2014 and the year ended December 31, 2013:

	2014		2013	
	Number of Options	**Weighted average price**	Number of Options	Weighted average price
Outstanding, beginning of period	**1,665,000**	**$0.150**	2,665,000	$0.140
Granted	**900,000**	**$0.145**	300,000	0.150
Expired	**-**	**-**	(1,300,000)	$0.130
Outstanding, end of period	**2,565,000**	**$0.148**	1,665,000	$0.150
Exercisable, end of period	**2,565,000**	**$0.148**	1,515,000	$0.150

(in Canadian dollars)

16. Share-based payments *(continued)*

All options are vested as at June 30, 2014 (December 31, 2013 – 150,000 options).

The following table summarizes the options to acquire common shares outstanding as at March 31, 2014:

Grant Date	Number Options	Exercise Price $	Weighted average remaining life (years)	Expiry Date
March 16, 2010	150,000	0.150	0.96	March 16, 2015
July 15, 2011*	1,215,000	0.150	0.29	July 15, 2014
April 1, 2013	300,000	0.150	2.01	April 1, 2016
March 26, 2014	900,000	0.145	4.99	March 26, 2019
	2,565,000			

- Currently, 1,215,000 options cannot be exercised as a result of a black out period pursuant to Company policy. At the end of the black out period, option holders will be entitled to exercise their options for up to ten (10) business days.

Share-based payments for the three and six months ending June 30, 2014 were $nil and $129,764, respectively (2013 $6,370 and $8,812, respectively) were recognized in the consolidated statement of income (loss) and comprehensive income (loss) with an offsetting amount charged to contributed surplus. Share-based payments have 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:

	2014	2013
Estimated per share fair value per option	$0.14	-
Risk-free interest rate	1.51%	-
Expected life	5 years	-
Expected volatility in stock price	151%	-
Expected annual dividend yield	nil	-
Estimated forfeiture rate	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.

17. 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 three and six months ending June 30, 2014 and 2013.

	Three months ended June 30,		***Six months ended June 30,***	
	2014	2013	**2014**	2013
Trade and other receivables	**$ (2,236,981)**	$ (433,343)	**$ (1,759,450)**	$ (71,170)
Inventory	**(69,530)**	11,301	**(71,385)**	81,218
Prepaid expenses and deposits	**27,682**	3,045	**(70)**	12,688
Trade and other payables	**1,199,302**	555,430	**1,026,696**	383,275
	$ (1,079,527)	$ 136,433	**$ (804,209)**	$ 406,011

18. Related party transactions

During the three and six months ending June 30, 2014, the Company incurred legal fees from a firm which employs one of the directors of the Company in the amount of $1,443 and $5,346, respectively, ($6,842 and $8,845, respectively for the three and six months ending June 30, 2013).

There were no other significant related party transactions

19. Financial instruments and risk management

Set out below is a comparison, by category, and how the fair value of financial instruments are measured.

Fair values

The fair values of cash and cash equivalents, trade and other receivables, bank overdraft, bank operating loan, and trade and other payables approximate their carrying values due to the relatively short periods to maturity of these instruments. The fair value of long term debt approximate its carrying value as the debt rate floats with prime.

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 is measured based on Level 1. Trade and other receivables, bank overdraft, bank operating loan, and trade and other payables are measured based on Level 3. There were no transfers between level 1 and 2 inputs during the year. Long-term debt is measured based on Level 3 using the effective interest rate method.

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 Company has a loan facility with a Canadian chartered bank which, when utilized by the Company, provides loans that are subject to floating market rates. The Company had a balance outstanding for this loan facility at June 30, 2014 of $945,000. Future cash flow requirements could require the Company to utilize its line of credit to finance working capital for periods of time and during these time periods it would be exposed

(in Canadian dollars)

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

to interest rate risk. In addition, the BDC Financing loans, which had a balance of $1,308,239 outstanding at June 30, 2014, are subject to floating market rates. Based on the floating rate debt outstanding as at June 30, 2014 a 1% increase/decrease in interest rates would result in a decrease/increase in net income (loss) attributable to common shareholders of approximately $16,900.

(b) Credit Risk
Financial instruments that subject the Company to credit risk consist primarily of trade receivables. The Company manages credit risk using credit approval and monitoring practices. At June 30, 2014, 5 customers accounted for approximately 97% of trade receivables (at December 31, 2013, 7 customers accounted for approximately 92% of trade receivables). (See Note 5 for details of credit policy and aging of outstanding trade receivables at June 30, 2014 and December 31, 2013).

(c) Liquidity Risk
Liquidity risk management involves maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit lines. Due to the nature of the business, the Company aims to maintain flexibility in funding by keeping committed credit lines available and limiting the investment of available cash to short term risk free interest bearing deposits. At June 30, 2014, the Company had access to $1,500,000 in bank operating line financing subject to advance restrictions on the level of receivables and inventories (note 7). Based on these restrictions the actual operating line availability at June 30, 2014 was $1,500,000 (December 31, 2013 - $971,000). The undrawn operating line at June 30, 2014 was $555,000 (December 31, 2013 - $536,000) and the undrawn BDC Capital Financing was $288,241 at June 30, 2014 (December 31, 2013 - $636,057).

The table below summarizes the maturity profile of the Company's financial liabilities at June 30, 2014 and December 31, 2013 based on contractual undiscounted payments.

	Less than 1 year	1 to 2 years	2 to 5 years	Total
As at June 30, 2014				
Bank overdraft	**$ 89,521**	**$ -**	**$ -**	**$ 89,521**
Bank operating loan	**945,000**	**-**	**-**	**945,000**
Trade and other payables	**1,493,180**	**-**	**-**	**1,493,180**
Long-term debt	**286,662**	**286,662**	**1,734,915**	**2,308,239**
Finance lease obligations	**54,173**	**56,743**	**58,649**	**169,565**
	$ 2,868,536	**$ 343,405**	**$ 1,793,564**	**$ 5,005,505**
As at December 31, 2013				
Bank overdraft	$ 53,109	$ -	$ -	$ 53,109
Bank operating loan	435,000	-	-	435,000
Trade and other payables	466,484	-	-	466,484
Long-term debt	286,662	286,662	387,099	960,423
Finance lease obligations	54,287	55,542	86,931	196,760
	$ 1,295,542	$ 342,204	$ 474,030	$ 2,111,776

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

(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 June 30, 2014 and December 31, 2013 the following balances are denominated in USD:

		2014		2013
Cash and cash equivalents	**$**	**32,104**	$	15,704
Trade and other receivables	**$**	**17,666**	$	17,666
Inventory	**$**	**1,906**	$	1,906
Prepaid expenses and deposits	**$**	**12,344**	$	12,063
Trade and other payables	**$**	**11,746**	$	26,362

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 June 30, 2014 a 5% increase/decrease of the USD against the Canadian dollar would result in an increase/decrease in total comprehensive income (loss) of approximately $2,800.

20. 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 six months ended June 30, 2014. The Company is subject to externally imposed capital requirements on its operating loan. As of June 30, 2014, the Company is in compliance with its debt covenants (see Note 7).

Total capitalization

		2014		2013
Long term debt (*Note 9*)	**$**	**2,308,239**	$	960,423
Finance lease obligations		**169,565**		196,760
Total debt		**2,477,804**		1,157,183
Shareholders' equity		**3,223,585**		3,733,711
	$	**5,701,389**	$	4,890,894

(in Canadian dollars)

21. 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 United States. The following tables present the sales to external customers for the three and six months ending June 30, 2014 and 2013 and the total non-current assets attributable to the Company's geographical segments as at June 30, 2014 and December 31, 2013:

	2014	2013	**2014**	2013
Sales to external customers				
Canada	**$ 3,070,504**	**$ 2,763,123**	**$ 3,331,464**	$ **4,760,965**
United States	**-**	**27,095**	**-**	**27,095**
	$ 3,070,504	**$ 2,790,218**	**$ 3,331,464**	$ **4,788,060**

	2014	2013
Total non-current assets		
Canada	**$ 4,217,013**	$ 3,683,926
United States	**2,945**	4,760
	$ 4,219,958	$ 3,688,686