CEMATRIX CORPORATION
Consolidated Financial Statements
(in Canadian dollars)
December 31, 2016

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 1, 2017

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 Corporation, which comprise the consolidated statement of financial position as at December 31, 2016 and, December 31, 2015, and the consolidated statements of income(loss) and comprehensive income(loss), changes in shareholders' equity and cash flows for the years then ended, and notes, comprising 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 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 in 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 consolidated financial position of Cematrix Corporation as at December 31, 2016, December 31, 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Calgary, Alberta

MNP LLP

March 1, 2017

Chartered Professional Accountants

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

		2016		2015
ASSETS				
Current Assets				
Cash and cash equivalents	$	**84,334**	$	1,450,785
Term deposit		**80,000**		70,000
Trade and other receivables *(note 5)*		**2,091,778**		4,580,868
Inventory *(note 6)*		**453,437**		587,970
Prepaid expenses and deposits		**138,909**		75,642
Current portion of share acquisition loans *(note 7)*		**17,469**		19,045
		2,865,927		6,784,310
Non Current Assets				
Share acquisition loans *(note 7)*		**39,801**		48,202
Property and equipment *(note 8)*		**3,400,305**		3,477,068
Intangibles *(note 9)*		**537,012**		465,116
Deferred taxes *(note 20)*		**732,787**		485,927
		4,709,905		4,476,313
Total Assets	$	**7,575,832**	$	11,260,623
LIABILITIES and EQUITY				
Current Liabilities				
Bank overdraft	$	**33,201**	$	-
Trade and other payables *(note 11)*		**484,977**		2,104,234
Factoring liability *(note 12)*		**-**		703,462
Mezzanine loan *(note 13)*		**-**		750,000
Current portion of long term debt *(note 14)*		**284,462**		286,662
Current portion of finance lease obligations *(note 15)*		**77,060**		56,247
		879,700		3,900,605
Non Current Liabilities				
Long term debt *(note 14)*		**1,952,032**		1,736,494
Finance lease obligations *(note 15)*		**171,875**		140,963
		2,123,907		1,877,457
Total Liabilities		**3,003,607**		5,778,062
SHAREHOLDERS' EQUITY				
Share capital *(note 16)*		**7,495,530**		7,434,530
Contributed surplus		**909,890**		799,430
Accumulated other comprehensive loss		**(41,605)**		(25,462)
Deficit		**(3,791,590)**		(2,725,937)
Total Shareholders' Equity		**4,572,225**		5,482,561
Total Liabilities and Shareholders' Equity	$	**7,575,832**	$	11,260,623

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)

		2016		2015
Revenue *(note 28)*	**$**	**9,598,861**	$	15,379,787
Cost of sales *(note 17)*		**8,282,485**		10,452,369
Gross margin		**1,316,376**		4,927,418
Operating expenses				
General and administrative		**1,140,999**		1,346,824
Sales, marketing and engineering		**1,142,877**		1,145,166
Total operating expenses		**2,283,876**		2,491,990
Operating income (loss)		**(967,500)**		2,435,428
Non-cash stock based compensation *(note 22)*		**(142,256)**		(224,049)
Finance costs *(note 18)*		**(199,936)**		(400,020)
Other income (expenses) *(note 19)*		**(18,617)**		45,820
Income (loss) before taxes		**(1,328,309)**		1,857,179
Recovery (provision) of deferred taxes *(note 20)*		**246,860**		(267,512)
Net income (loss) attributable to the common shareholders		**(1,081,449)**		1,589,667
Other comprehensive loss				
Items that may be reclassified subsequent to profit or loss:				
Unrealized foreign exchange loss on translation of foreign subsidiary		**(16,143)**		(23,272)
Total comprehensive income (loss)	**$**	**(1,097,592)**	$	1,566,395
Income (loss) per common share *(note 21)*				
Basic	**$**	**(0.031)**	$	0.047
Diluted	**$**	**(0.031)**	$	0.046
Weighted average number of common shares *(note 21)*				
Basic		**34,421,076**		34,136,542
Diluted		**34,421,076**		34,526,255

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, 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
Balance at December 31, 2015	$ **7,434,530**	**$ 799,430**	**(25,462)**	**$ (2,725,937)**	**$ 5,482,561**
Issue of shares *(note 16)*	**45,000**	**-**	**-**	**-**	**45,000**
Reclassification of contributed surplus to share capital *(note 22)*	**16,000**	**(16,000)**	**-**	**-**	**-**
Non-cash stock based compensation *(note 22)*	**-**	**142,256**	**-**	**-**	**142,256**
Reclassification of contributed surplus to deficit *(note 22)*	**-**	**(15,796)**	**-**	**15,796**	**-**
Net loss attributable to common shareholders	**-**	**-**	**-**	**(1,081,449)**	**(1,081,449)**
Unrealized foreign exchange loss on translation of foreign subsidiary	**-**	**-**	**(16,143)**	**-**	**(16,143)**
Balance at December 31, 2016	**$ 7,495,530**	**$ 909,890**	**(41,605)**	**$ (3,791,590)**	**$ 4,572,225**

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)

		2016		2015
Cash generated from (used in):				
Operating activities				
Net income (loss) attributable to common shareholders	**$**	**(1,081,449)**	$	1,589,667
Add (deduct) non-cash items				
Provision (recovery) of deferred taxes (note 20)		**(246,860)**		267,512
Depreciation (note 8)		**489,142**		371,860
Non-cash stock based compensation (note 22)		**142,256**		224,049
Loss on sale and retirement of property and equipment (note 19)		**17,278**		-
Accretion of non-cash fair market value adjustment on share acquisition loans *(note 7)*		**(12,648)**		(1,868)
		(692,281)		2,451,220
Net change in non-cash working capital items (note 23)		**941,099**		(207,545)
Cash generated from operations		**248,818**		2,243,675
Investing activities				
Purchase of property and equipment (note 8)		**(342,274)**		(691,687)
Proceeds on sale of property and equipment *(note 19)*		**42,891**		-
Purchase of intangibles *(note 9)*		**(71,896)**		-
Purchase of term deposit		**(10,000)**		(70,000)
Repayments on share acquisition loans (note 7)		**22,625**		22,625
Cash used in investing activities		**(358,654)**		(739,062)
Financing activities				
Repayment of bank operating loan		**-**		(1,110,000)
Proceeds from long term debt (note 14)		**500,000**		93,936
Repayments of long term debt (note 14)		**(286,662)**		(286,662)
Proceeds from factoring (note 12)		**-**		4,344,938
Repayment on factoring (note 12)		**(703,462)**		(3,641,476)
Proceeds from (repayment of) mezzanine loan (note 13)		**(750,000)**		750,000
Repayments of finance lease obligations		**(78,549)**		(59,657)
Issue of common shares (note 16)		**45,000**		22,500
Cash generated (used in) from financing activities		**(1,273,673)**		113,579
Foreign exchange effect on cash		**(16,143)**		(23,272)
Increase (decrease) in cash		**(1,399,652)**		1,594,920
Cash (cash deficiency), beginning of year		**1,450,785**		(144,135)
Cash, end of year	$	**51,133**	$	1,450,785
Cash				
Cash and cash equivalents	$	**84,334**	$	1,450,785
Bank overdraft		**(33,201)**		-
Cash, end of year	$	**51,133**	$	1,450,785
Supplemental Information				
Finance costs paid during the year	$	**212,640**	$	383,004

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, 2016 were authorized for issue in accordance with a resolution of the Board of Directors on March 1, 2017.

2. Basis of preparation

Statement of compliance
These consolidated financial statements for the year ended December 31, 2016 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").

Basis of measurement
These consolidated financial statements were prepared on a going concern basis 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 ("USD").

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 ("FVLCD") and its value in use ("VIU"). The fair value less costs of disposal 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. 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 gross margin and the discount rates:

	2016	2015
Gross margin	**25%**	27%
Pre tax discount rate	**18%**	18%

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 2% 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 conservative 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, 2016.

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, forfeiture rate, 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.

E) Useful life of property and equipment

Depreciation and amortization are calculated using a systematic and rational basis, which are based upon an estimate of each assets useful life and residual value. The estimated useful life and residual value chosen are the Company's best estimate of such and are based on industry norms, historical experience, market conditions and other estimates that consider the period and distribution of future cash inflows.

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

4. Significant accounting policies *(continued)*

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.

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 exceeds 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, trademarks and product testing costs. 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 of disposal 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)*

An impairment loss on intangible assets with an indefinite life and on any goodwill is not reversed.

H) Revenue recognition

Revenue is recognized when the risks and reward of ownership, of the Company's produced product, are transferred to the customer. 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, demand 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 (greater than one year) 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 2016 the Company adopted new IFRS standards and amendments in accordance with the transitional provisions of each standard as outlined below:

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

The adoption of this standard did not have any significant 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, 2017 or later periods. The standards impacted that are applicable to the Company are as follows:

IAS 7 Statement of Cash Flows – In January 2016, the ISAB published amendments to IAS 7. The adjustments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity’s financing activities. This pronouncement is effective for annual periods beginning on or after January 1, 2017.

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 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 determined that the impact on its consolidated financial statements from the adoption of these future accounting pronouncements will not be material.

IFRS 16 Leases – In January 2016, the IASB issued IFRS 16, “Leases” (“IFRS 16”) replacing International Accounting Standard 17, “Leases” (“IAS 17”). IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, the customer (“lessee”)

4. Significant accounting policies *(continued)*

and the supplier ("lessor"). The standard provides revised guidance on identifying a lease and separating lease and non-lease components of a contract. It introduces a single accounting model for all leases and requires a lessee to recognize right-of-use assets and lease liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value, and depreciation of lease assets separately from interest on lease liabilities in the income statement. Lessor accounting for operating and finance leases will remain substantially unchanged. IFRS 16 is effective for years beginning on or after January 1, 2019.

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

5. Trade and other receivables

Trade and other receivables consist of the following components as at December 31, 2016 and 2015:

		2016		2015
Trade receivables	**$**	**1,934,967**	$	3,823,433
Holdbacks		**91,611**		693,854
Other receivables		**65,200**		63,581
	$	**2,091,778**	$	4,580,868

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.

The aging of the trade receivables were as follows as at December 31, 2016 and 2015:

		2016		2015
1-30 days	**$**	**931,720**	$	1,206,728
30-60 days		**337,535**		928,495
61-90 days		**463,320**		306,786
Greater than 90 days		**202,392**		1,381,424
	$	**1,934,967**	$	3,823,433

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 (2015 - $nil).

6. Inventory

Inventory consists of the following components as at December 31, 2016 and 2015:

		2016		2015
Raw materials (principally foaming agent)	**$**	**450,686**	$	585,332
Marketing material and spare parts		**2,751**		2,638
	$	**453,437**	$	587,970

Inventory expensed as part of cost of sales was $359,345 and $396,356, respectively, for the years ended December 31, 2016 and 2015. There were no inventory write-downs in either 2016 or 2015.

7. Share acquisition loans

Share acquisition loans consist of the following components as at December 31, 2016 and 2015:

		2016		2015
Share acquisition loans, beginning of year	**$**	**90,500**	$	113,125
Repayments		**(22,625)**		(22,625)
Share acquisition loans, end of year		**67,875**		90,500
Non-cash fair value adjustment, beginning of year		**(23,253)**		(25,121)
Accretion of non-cash fair value adjustment		**12,648**		1,868
Non-cash fair value adjustment, end of year		**(10,605)**		(23,253)
		57,270		67,247
Less current portion		**(17,469)**		(19,045)
Share acquisition loans, end of year	**$**	**39,801**	$	48,202

In 2001 and 2002, share acquisition loans totalling $113,125 were issued to management 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 at December 31, 2014 using the effective interest rate method. An effective interest rate used was 9%. 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, 2016 and 2015 is outlined below:

		2016		2015
Owned:				
Equipment and cellular material processors				
Carrying amount at the beginning of the year	**$**	**2,811,190**	$	1,499,759
Additions		**112,934**		119,803
Sale and retirements		**(59,911)**		-
Reclassification		**590,680**		1,517,318
Depreciation		**(424,071)**		(325,690)
Carrying amount at the end of the year	**$**	**3,030,822**	$	2,811,190
Vehicles				
Carrying amount at the beginning of the year	**$**	**8,741**	$	10,273
Sale		**(258)**		-
Reclassification		**43,786**		-
Depreciation		**(4,391)**		(1,532)
Carrying amount at the end of the year	**$**	**47,878**	$	8,741
Computer equipment and software				
Carrying amount at the beginning of the year	**$**	**18,058**	$	19,943
Additions		**41,029**		5,832
Depreciation		**(10,352)**		(7,717)
Carrying amount at the end of the year	**$**	**48,735**	$	18,058
Furniture and fixtures and leasehold improvements				
Carrying amount at the beginning of the year	**$**	**6,184**	$	5,669
Additions		**4,674**		1,075
Depreciation		**(1,116)**		(560)
Carrying amount at the end of the year	**$**	**9,742**	$	6,184
Equipment Under Construction*				
Carrying amount at the beginning of the year	**$**	**365,354**	$	1,317,695
Additions		**183,637**		564,977
Reclassification		**(548,991)**		(1,517,318)
Carrying amount at the end of the year	**$**	**-**	$	365,354

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

		2016		2015
Summary owned:				
Carrying amount at the beginning of the year	**$**	**3,209,527**	$	2,853,339
Additions		**342,274**		691,687
Sale and retirement of property and equipment		**(60,169)**		-
Reclassification		**85,475**		-
Depreciation		**(439,930)**		(335,499)
Carrying amount at the end of the year	**$**	**3,137,177**	$	3,209,527

8. Property and equipment *(continued)*

Summary Leased:		**2016**		2015
Vehicles and equipment				
Carrying amount at the beginning of the year	**$**	**267,541**	$	189,532
Additions		**130,274**		114,370
Reclassification		**(85,475)**		-
Depreciation		**(49,212)**		(36,361)
Carrying amount at the end of the year	**$**	**263,128**	$	267,541
Summary				
Carrying amount at the beginning of the year	**$**	**3,477,068**	$	3,042,871
Additions		**472,548**		806,057
Sale and retirement of equipment, cellular material processors and		**(60,169)**		-
Depreciation		**(489,142)**		(371,860)
Carrying amount at the end of the year	**$**	**3,400,305**	$	3,477,068

For the year ended December 2016, the Company capitalized labour costs related to equipment under construction of approximately $70,000 (2015 – $192,000).

At December 31, 2016, the cost and accumulated depreciation of property and equipment was $5,985,718 and $2,585,413, respectively (December 31, 2015, $5,781,125 and $2,304,057, respectively).

9. Intangibles

		2016		2015
Foaming agent technology	**$**	**315,000**	$	315,000
Process licenses		**141,110**		141,110
Trademarks		**9,006**		9,006
Product testing costs		**71,896**		-
	$	**537,012**	$	465,116

The intangible assets with indefinite lives includes foaming agent technology, process licenses and trademarks. The foaming agent technology relates to the cost of obtaining a foaming agent formula which is used by the Company to produce one of the unique foaming agents which it uses in the production of cellular concrete. This foaming agent formula, which enables the production of cellular concrete which has certain unique properties, cannot be easily duplicated. The process licenses relates to the cost of obtaining a mechanical process patent which the Company believes will enhance the production of its cellular concrete. To date the Company has not had the necessary funds to develop this process. The process is protected by the patent which is registered in the U.S. The trademarks relate to cost of initially registering certain trademarks in both Canada and the U.S. These trademarks are renewed as required for a nominal cost. As a result of an assessment of these facts Management believes that these items have an indefinite life.

Product testing costs relate to third party testing and verification of certain qualities of the Company's products. This information is particularly important for the further development of the infrastructure market. The product testing costs are not completed and therefore are not available for use. At the end of each testing program, the specific product testing costs related to the particular program will be amortized over a future years based on their estimated useful life. For the year ended December 2016, the Company capitalized labour costs related to product testing of approximately $23,000 (2015 – $nil).

10. Demand operating loan

In April 2016, CEMATRIX's wholly owned subsidiary, CEMATRIX (Canada) Inc. entered into a financing arrangement with the Canadian Western Bank (the "Bank") which provides a $2,000,000 demand operating loan. The demand operating loan (the "Loan") bears interest at an amount equal to the greater of 4.70% or 2% above the Bank's prime lending rate, as may occur from time to time, and is secured by a general security agreement providing a first secured interest in the receivables and inventory of CEMATRIX (Canada) Inc. The Loan is further 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.

Under the demand operating loan, the Bank will advance up to $2,000,000 based on 75% of trade receivables less than ninety days outstanding at the end of each month and 50% of inventories (up to a maximum $250,000). Based on these restrictions the actual operating loan availability at December 31, 2016 was $1,341,000, of which $nil had been drawn down.

The Loan is used to finance day-to-day operations of CEMATRIX (Canada) Inc.

The demand operating loan contains covenants in regard to consolidated cash flow coverage ratio, consolidated debt to tangible net worth ratio, consolidated current ratio and consolidated amount of tangible net worth. At December 31, 2016, the Company is in compliance with all of these covenants except for the consolidated cash flow coverage. Subsequent to year end, the Canadian Western Bank have provided relief on these tests for the year ended December 31, 2016 (see Note 29).

The Loan was $nil as at December 31, 2016 and 2015.

11. Trade and other payables

Trade and other payables consist of the following components as at December 31, 2016 and 2015:

		2016		2015
Trade payables	**$**	**263,201**	$	1,477,157
Accrued interest		**4,024**		26,222
Other accruals		**152,369**		489,460
Payroll remittance and goods & services tax		**65,383**		111,395
	$	**484,977**	$	2,104,234

12. Factoring Liability

The factoring liability as at December 31, 2016 and 2015 is outlined below:

		2016		2015
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, which was available for the purchase by Tallinn Capital of up to $1,250,000 of specific trade receivable invoices. For qualifying sales invoices ("Factored

12. Factoring Liability *(continued)*

Receivables"), which were purchased under the receivable purchase agreement, CEMATRIX (Canada) Inc. received 80% of the value of the specific sales invoice at the time of purchase and 20% when the sales invoice was collected by Tallinn Capital. A discount rate of 2% (reduced from 2.25% in September 2015) was charged for the first 30 days that the sales invoice was outstanding, with a further daily discount rate of 0.067% (reduced from 0.075% in September 2015) until the sales invoice was collected. Tallinn Capital could, at its sole discretion, require that CEMATRIX (Canada) Inc. repurchase any Factored Receivables that were not collected within 90 days of the sales invoice date at a price equal to the outstanding amount thereof. CEMATRIX (Canada) Inc. retained the responsibility for collection and any foreign exchange fluctuation of the Factored Receivables.

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

The receivable purchase agreement was terminated in April 2016 when the new demand operating loan was established with the Canadian Western Bank.

13. Mezzanine Loan

On May 22, 2015, CEMATRIX (Canada) Inc., entered into a 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 a credit facility with the Royal Bank of Canada ("Former Credit Facility").

The agreement with Tallinn Capital consisted 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 Former Credit Facility and to provide working capital financing.

The Mezzanine Loan, bore interest at 16.5%, payable monthly in arrears, with a maturity date of April 30, 2016.

This loan was secured by $1,000,000 in current quality receivables (accounts that have been outstanding for less than 90 days) of the Corporation. The Company had the option to make prepayments at any time after October 31, 2015 and prior to maturity in multiples of $250,000.

In February 2016 the Company repaid $250,000 with cash from operations and in April 2016 repaid the balance of $500,000 with proceeds from the demand operating loan with the Canadian Western Bank.

14. Long term debt

Long term debt consists of the following components as at December 31, 2016 and 2015:

	Maturity	Interest rate	2016	2015
BDC Financing				
Loan 1	December 1, 2016	Floating	$ **-**	$ 85,800
Loan 2	October 1, 2020	Floating	**736,494**	937,356
Loan 3	December 1, 2022	Floating	**500,000**	-
Loan 4	September 1, 2024	Floating	**-**	-
			1,236,494	1,023,156
Secured Debenture	February 11, 2018*	Fixed	**1,000,000**	1,000,000
			2,236,494	2,023,156
Less current portion			**(284,462)**	(286,662)
			$ 1,952,032	$ 1,736,494

* Repayment of principal extended to February 11, 2019 (see note 29)

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 was repaid in December 2016.

Loan 2 – 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, which is payable monthly, is at a variable rate of 1.75% above the BDC floating base rate, currently set at 4.70%. 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.

Loan 3 – In June 2016, the Company's wholly owned subsidiary, CEMATRIX (Canada) Inc., entered into an agreement with the BDC for a working capital loan of $500,000. The loan was drawn down in December 2016. The interest, which is payable monthly, is at a variable rate of 3.86% above the BDC floating base rate, currently set at 4.70%. The loan is repayable over six years, with seasonal payments of principal required from July to December of each year starting in July 2017. Payments of principal of $14,200 are required in July 2017 and $13,880 from August to December 2017 and each year thereafter $13,880 monthly from July to December.

Loan 4 - In October 2016, the Company's wholly owned subsidiary, CEMATRIX (Canada) Inc., entered into an agreement with the BDC for an equipment loan of $500,000. The BDC Equipment Financing can be drawn down anytime over the next 24 months. There has been no draw on the loan as of December 31, 2016. The interest, which is payable monthly, is at a variable rate of 1.85% above the BDC floating base rate, currently set at 4.70%. At the Company's option the interest rate can be fixed once the loan is fully drawn. Interest, on any loan amounts drawn, is payable monthly. The loan, if drawn down, will be repayable over six years, with seasonal payments of principal required. Payments of principal of $14,200 are required in October 2018 and $13,880 from November to

14. Long term debt *(continued)*

December 2018, of $13,880 monthly from July to December for each of the years 2019 to 2023 and $13,880 monthly from July to September 2024.

Loan 2 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.

Loan 3 may be prepaid at any time without indemnity. For Loan 3, the BDC will, within 24 months of the loan, and provided there are no adverse material changes, re-advance, one time only, any repaid portion of the loan in an amount not less than $10,000 under the same terms and conditions, other than a revised amortization period and maturity date, if applicable.

Loan 4 may be prepaid at any time without indemnity. If the loan is at floating rates any prepayment must include any interest owing up to the time of the prepayment. If the loan is at a fixed rate any prepayment must include any interest owing up to the time of the prepayment and an interest differential charge.

Management determined that the economic characteristics and risks of the prepayment features are closely related to those of the host debt contract and, therefore, no embedded derivative was identified for any of the loans.

The BDC loans are 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 BDC Capital Financing 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.

There are no financial covenants with the BDC loans.

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 was initially repayable in full in February 2017 but this was extended by one year to February 2018 in April 2016 (see also note 29). 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 Companies line of credit and any charges on specific equipment for financed or leased.

The terms of the Secured Debenture restrict the amount of demand operating loan to an amount equal to $1,000,000, with an increase to $1,500,000 on a short term basis during the Company’s busy season, plus 60% of the Company’s aggregate after tax earnings from the date the Secured Debenture was issued, without prior consent from the lender.

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 2017 to May 2021. The leases are secured by the leased assets which have a carrying value of $263,128 (2015 - $267,541). The annual future commitments under the leases are as follows:

2017	$	91,914
2018		56,157
2019		120,196
2020		5,386
2021 & beyond		1,815
		275,468
Less imputed interest		(26,533)
		248,935
Current portion		(77,060)
	$	**171,875**

New finance lease obligations of $130,274 were entered into during the year ended December 31, 2016 ($114,370 during the year ended December 31, 2015).

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, 2016 and 2015:

	2016		2015	
	Number Of Shares	**Amount ($)**	Number Of Shares	Amount ($)
Common shares, beginning of year	**34,175,994**	**$7,434,530**	34,025,994	$7,396,309
Common shares issued *(i)*	**300,000**	**45,000**	150,000	22,500
Reclassification of contributed surplus *(i)*	**-**	**16,000**	-	15,721
Common shares, end of year	**34,475,994**	**$7,495,530**	34,175,994	$7,434,530

(i) Common shares issued

During the year ended December 31, 2016, 300,000 common shares were issued on the exercise of stock options held by The Howard Group, the Company's investor relations firm, proceeds of $45,000 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, 2015, 150,000 common shares were issued on the exercise of stock options held by a director of the Company, 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.

17. Cost of sales

Cost of sales consists of the following components for the years ended December 31, 2016 and 2015:

		2016		2015
Manufacture of cellular concrete				
Materials	**$**	**4,839,669**	$	6,785,166
Direct labour		**1,617,858**		1,774,520
Variable expenses		**1,000,002**		1,239,132
Fixed overhead		**360,564**		300,009
Depreciation		**464,392**		353,542
	$	**8,282,485**	$	10,452,369

18. Finance costs

The finance costs incurred for the years ended December 31, 2016 and 2015 are as follows:

		2016		2015
Interest				
BDC Financing	**$**	**62,075**	$	78,566
Secured Debenture		**90,000**		90,000
Finance lease obligations		**16,528**		10,951
Mezzanine loan		**33,811**		74,589
Factoring Discount		**4,013**		128,620
Bank operating loan		**2,237**		12,753
Other		**3,920**		6,409
		212,584		401,888
Accretion of fair value adjustment on share acquisition loans *(note 7)*		**(12,648)**		(1,868)
	$	**199,936**		400,020

19. Other income (expenses)

Other income for the years ended December 31, 2016 and 2015 consists of the following:

		2016		2015
Foreign exchange income	**$**	**1,050**	$	45,820
Loss on sale and retirement of equipment		**(17,278)**		-
Other expenses		**(2,389)**		-
	$	**(18,617)**	$	45,820

In 2016 the Company sold idle equipment and vehicles, which had a book value of $22,683, for proceeds of $42,891. In addition, the Company retired certain idle equipment which had a book value of $37,486.

20. Taxes

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

		2016		2015
Income (loss) before taxes	**$**	**(1,328,309)**	$	1,857,179
Combined statutory tax rate		**27.0%**		26.0%
Computed "expected" tax expense (recovery)		**(358,643)**		482,867
Differences resulting from:				
Non-cash stock based compensation		**38,409**		58,253
Change in enacted rate and other		**9,549**		(273,394)
Change in deferred tax assets not recognized		**63,825**		(214)
Provision (recovery) of deferred taxes	**$**	**(246,860)**	$	267,512

The statutory tax rate increased from 26% to 27% due to an increase in the Alberta provincial tax rate on July 1, 2015 and a higher allocation of income to the province of Ontario.

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

		2016		2015
Deferred tax assets				
Non-capital loss carry forwards	**$**	**1,072,301**	$	398,965
Cumulative eligible capital		**89,659**		96,408
Finance lease obligations		**64,723**		51,275
Other		**94,258**		288,212
		1,320,941		834,860
Deferred tax liabilities				
Property and equipment		**(155,747)**		(69,561)
Intangibles		**(139,623)**		(120,930)
		(295,370)		(190,491)
Deferred tax assets not recognized		**(292,784)**		(158,442)
Deferred tax asset	**$**	**732,787**	$	485,927

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 $292,784 (2015 - $158,442) 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 - $1,057,364; 2030 - $896,355; 2033 - $5,434; 2034 - $9,124; 2035 - $28,950; and 2036 – $1,230,005. The Company also has U.S. net operating losses of U.S. $483,444 which expire between 2032 and 2036.

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, 2016 and 2015 is as follows:

	2016	2015
Weighted average common shares outstanding - basic	**34,421,076**	34,136,542
Effect of dilutive instruments	**-**	389,713
Weighted average common shares outstanding – diluted	**34,421,076**	34,526,255

The stock options for the year ended December 31, 2016 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, 2016, the Company had 3,425,000 shares reserved for the issuance of existing stock options (December 31, 2015 – 3,141,667).

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. Options issued to new employees generally do not vest for a year after issue. The options issued to The Howard Group, the Company's investor relation firm, vest in relationship to the term of their investor relation agreement.

The following table summarizes the changes in options for the years ended December 31, 2016 and 2015:

	2016		2015	
	Number of Options	**Weighted average price**	Number of Options	Weighted average price
Outstanding, beginning of year	**3,141,667**	**$0.20**	3,090,000	$0.20
Granted	**650,000**	**$0.42**	250,000	$0.19
Exercised	**(300,000)**	**$0.15**	(150,000)	$0.15
Expired	**(66,667)**	**$0.24**	(10,000)	$0.24
Forfeited	**-**	**-**	(38,333)	$0.24
Outstanding, end of year	**3,425,000**	**$0.25**	3,141,667	$0.20
Exercisable, end of year	**2,658,333**	**$0.21**	2,400,000	$0.19

During the year ended December 31, 2016, 300,000 options were issued to The Howard Group, the Company's investor relations firm, with an exercise price of $0.40, for a three year term and vesting as to 50 percent, twelve months after the option grant date, 25 percent, eighteen months after the option grant date and 25 percent, twenty four months after the option grant date. In addition, 350,000 options were issued to three employees with an exercise price of $0.43. The options vest as to one third on each of the three subsequent anniversary dates of the option issue date and are exercisable four years from the option issue date. In March 2016, The Howard Group exercised 300,000 of previously held options.

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

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. In April 2015 a director exercised 150,000 of previously held options.

There are 766,667 options that have not vested as at December 31, 2016 (December 31, 2015 – 741,667 options).

The following table summarizes the options to acquire common shares outstanding as at December 31, 2016:

Grant Date	Number Options	Exercise Price ($)	Weighted average remaining life (years)	Expiry Date
March 26, 2014	900,000	0.145	2.23	March 26, 2019
October 22, 2014	1,625,000	0.240	2.81	October 22, 2019
March 5, 2015	100,000	0.200	3.18	March 5, 2020
April 15, 2015	150,000	0.190	3.29	April 15, 2020
March 18, 2016	300,000	0.400	2.21	March 18, 2019
May 4, 2016	350,000	0.430	3.34	May 4, 2020
	3,425,000			

Non-cash stock based compensation for the years ended December 31, 2016 and 2015 of $142,256 and $224,049, 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:

	2016*	2015
Estimated per share fair value per option	**$0.42**	$0.18
Risk-free interest rate	**0.67%**	0.77% - 0.92%
Expected life	**4 years**	5 years
Expected volatility in stock price	**130%**	165% - 172%
Expected annual dividend yield	**nil**	nil
Estimated forfeiture rate	**nil**	nil

*The options issued to The Howard Group in 2016 pursuant their investor relations agreement have been valued at fair value being the market value of the services provided.

At the years ended December 31, 2016 and 2015, the Company reclassified $15,796 and $9,703, 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 2016 and 2015 the Company reclassified $16,000 and $15,721, respectively, from contributed surplus to share capital related to non-cash stock based compensation for option grants that were exercised in 2016 and 2015, 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, 2016 and 2015.

		2016		2015
Trade and other receivables	**$**	**2,489,090**	$	(321,782)
Inventory		**134,533**		(76,273)
Prepaid expenses and deposits		**(63,267)**		13,768
Trade and other payables		**(1,619,257)**		176,742
	$	**941,099**	$	(207,545)

24. Related party transactions

During the year ended December 31, 2016, the Company incurred legal fees from a firm which employs one of the directors of the Company in the amount of $44,071 ($17,074 for the year ended December 31, 2015) of which $nil is in trade and other payables as at December 31, 2016 (2015 - $nil).

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, 2016 and 2015 were as follows:

		2016		2015
Short term employment benefits	**$**	**445,260**	$	624,650
Non-cash stock based compensation *(note 22)*		**39,190**		121,155
	$	**484,450**	$	745,805

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, demand 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.

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.

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

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 $1,236,494 outstanding at December 31, 2016, are subject to floating market rates. Based on the floating rate debt outstanding as at December 31, 2016, a 1% increase/decrease in interest rates would result in a decrease/increase in net loss attributable to common shareholders of approximately $9,000.

(b) Credit Risk
Financial instruments that subject the Company to credit risk consist primarily of cash and cash equivalents, term deposits, trade receivables and the share acquisition loans. The Company's cash is held with large established financial institutions. The Company manages credit risk using credit approval and monitoring practices. At December 31, 2016, 9 customers accounted for approximately 90% of trade receivables (at December 31, 2015, 5 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, 2016 and 2015). At December 31, 2016, the Company had $84,334 of cash and cash equivalents (2015 - $1,450,785), an $80,000 term deposit (2015 - $70,000) and $57,270 (2015 - $67,247) of fair valued share acquisition loans that are outstanding with two officers, and a former officer, of the Company.

(c) Liquidity Risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations. Liquidity risk management involves maintaining sufficient cash and cash equivalents and the availability of working capital financing to meet its financial obligations.

The table on the next page summarizes the maturity profile of the Company's financial liabilities at December 31, 2016 and 2015 based on contractual undiscounted payments.

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

	Less than 1 year	1 to 2 years	2 to 6 years	Total
As at December 31, 2016				
Bank overdraft	**33,201**	**-**	**-**	**33,201**
Trade and other payables	**484,977**	**-**	**-**	**484,977**
Long-term debt	**284,462**	**1,284,142**	**667,890**	**2,236,494**
Finance lease obligations	**77,060**	**47,243**	**124,632**	**248,935**
	879,700	**1,331,385**	**792,522**	**3,003,607**
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

(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:

		2016	2015
Cash and cash equivalents	$	**60,666**	213,748
Trade and other receivables	$	**39,672**	55,842
Inventory	$	**-**	1,906
Prepaid expenses and deposits	$	**9,837**	9,805
Trade and other payables	$	**14,317**	22,937

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, 2016 a 5% increase/decrease of the USD against the Canadian dollar would result in an increase/decrease in total comprehensive loss of approximately $6,400.

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.

26. Capital management *(continued)*

Management reviews its capital management approach on an ongoing basis. There were no material changes to this approach during the year ended December 31, 2016. The Company is subject to externally imposed financial covenants with its demand operating loan and certain restrictions imposed by the Secured Debenture. As at December 31, 2016, the Company was not in compliance with one of the financial covenants related to it's demand operating loan (see Note 10 and Note 29).

Total capitalization

	2016	2015
Long term debt (*Note 14*)	**$ 2,236,494**	$ 2,023,156
Finance lease obligations *(Note 15)*	**248,935**	197,210
Total debt	**2,485,429**	2,220,366
Shareholders' equity	**4,572,225**	5,482,561
	$ 7,057,654	$ 7,702,927

27. Commitments

As at December 31, 2016, the Company had annual operating lease commitments for facilities of $305,169 for 2017 and $277,168 annually for the period 2018 to 2019. There are no material other operating leases.

Operating lease payments, net of sub lease rental, recognized as expenses were $336,964 for the year ended December 31, 2016 ($265,282 for the year ended December 31, 2015).

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 2016 and 2015 and the total non-current assets attributable to the Company's geographical segments as at December 31, 2016 and 2015:

	2016	2015
Sales to external customers*		
Canada	**$ 9,504,557**	$ 13,478,187
U.S.	**94,304**	1,901,600
	$ 9,598,861	$ 15,379,787

	2016	2015
Total non-current assets		
Canada	**$ 4,706,989**	$ 4,469,432
U.S.	**2,916**	6,881
	$ 4,709,905	$ 4,476,313

* Includes sales to the same customer of $2,538,380 in 2016 ($5,247,373 in 2015)

29. Subsequent event

(1) In February 2017, the Canadian Western Bank granted relief on the cash flow coverage test in relation to the Company's demand operating loan for the year ended December 31, 2016.

(2) In February 2017, the Company negotiated an extension of the repayment of the principal of the Secured Debenture to February 2019.