CEMATRIX CORPORATION
Consolidated Financial Statements
(in Canadian dollars)
March 31, 2017

Management's Responsibility for Financial Reporting and Notice of No Auditor Review of the Interim Consolidated Financial Statements for the Three Months Ended March 31, 2017

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 judgment. 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.

May 3, 2017

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

CEMATRIX CORPORATION
Consolidated Statements of Financial Position
As at March 31, 2017 (unaudited) and December 31, 2016 (audited)
(in Canadian Dollars)

		2017		2016
ASSETS				
Current Assets				
Cash and cash equivalents	$	**46,031**	$	**84,334**
Term deposit		**80,000**		**80,000**
Trade and other receivables *(note 5)*		**3,807,264**		**2,091,778**
Inventory *(note 6)*		**515,106**		**453,437**
Prepaid expenses and deposits		**131,430**		**138,909**
Current portion of share acquisition loans *(note7)*		**18,759**		**17,469**
		4,598,590		**2,865,927**
Non Current Assets				
Share acquisition loans *(note 7)*		**39,801**		**39,801**
Property and equipment		**3,403,033**		**3,400,305**
Intangibles *(note 8)*		**579,806**		**537,012**
Deferred taxes		**746,426**		**732,787**
		4,769,066		**4,709,905**
Total Assets	$	**9,367,656**	$	**7,575,832**
LIABILITIES and EQUITY				
Current Liabilities				
Bank overdraft	$	**33,378**	$	33,201
Demand operating loan *(note 9)*		**287,886**		-
Trade and other payables *(note 10)*		**1,799,599**		484,977
Current portion of long term debt *(note 11)*		**303,822**		284,462
Current portion of finance lease obligations *(note 12)*		**74,220**		77,060
		2,498,905		879,700
Non Current Liabilities				
Long term debt *(note 11)*		**2,159,372**		1,952,032
Finance lease obligations *(note 12)*		**160,604**		171,875
		2,319,976		2,123,907
Total Liabilities		**4,818,881**		3,003,607
SHAREHOLDERS' EQUITY				
Share capital *(note 13)*		**7,495,530**		7,495,530
Contributed surplus		**938,299**		909,890
Accumulated other comprehensive loss		**(41,069)**		(41,605)
Deficit		**(3,843,985)**		(3,791,590)
Total Shareholders' Equity		**4,548,775**		4,572,225
Total Liabilities and Shareholders' Equity	$	**9,367,656**	$	7,575,832

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 Loss and Comprehensive Loss

For the three months ended March 31 (unaudited)
(in Canadian Dollars)

		2017		2016
Revenue *(note 23)*	**$**	**2,527,471**	$	3,170,689
Cost of sales *(note 14)*		**1,992,786**		2,440,543
Gross margin		**534,685**		730,146
Operating expenses				
General and administrative		**259,730**		276,389
Sales, marketing and engineering		**263,946**		321,144
Total operating expenses		**523,676**		597,533
Operating income		**11,009**		132,613
Non-cash stock based compensation *(note 18)*		**(28,409)**		(24,079)
Finance costs *(note 15)*		**(50,521)**		(72,396)
Other income *(note 16)*		**1,887**		9,136
Income (loss) before taxes		**(66,034)**		45,274
Provision of deferred taxes		**13,639**		(48,223)
Loss attributable to the common shareholders		**(52,395)**		(2,949)
Other comprehensive income (loss)				
Items that may be reclassified subsequent to profit or loss:				
Unrealized foreign exchange gain (loss) on translation of foreign subsidiary		**536**		(19,538)
Total comprehensive loss for the period	**$**	**(51,859)**	$	(22,487)
Loss per common share for the period *(note 17)*				
Basic	**$**	**-**	$	-
Fully Diluted	**$**	**-**	$	-
Weighted average number of common shares for the period *(note 17)*				
Basic		**34,475,994**		34,255,115
Fully Diluted		**34,475,994**		34,255,115

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

CEMATRIX CORPORATION
Consolidated Statements of Changes in Shareholders' Equity
For the three months ended March 31 (unaudited)
(in Canadian Dollars)

		Share Capital		Contributed Surplus	Accumulated other Comprehensive income (loss)		Deficit		Total Shareholders' Equity
Balance at December 31, 2016	**$**	**7,495,530**	**$**	**909,890**	**(41,605)**	**$**	**(3,791,590)**	**$**	**4,572,225**
Non-cash stock based compensation *(note 18)*		**-**		**28,409**	**-**		**-**		**28,409**
Net loss attributable to common shareholders		**-**		**-**	**-**		**(52,395)**		**(52,395)**
Unrealized foreign exchange gain on translation of foreign subsidiary		**-**		**-**	**536**		**-**		**536**
Balance at March 31, 2017	**$**	**7,495,530**	**$**	**938,299**	**(41,069)**	**$**	**(3,843,985)**	**$**	**4,548,775**
Balance at December 31, 2015	**$**	7,434,530	$	799,430	(25,462)	$	(2,725,937)	$	5,482,561
Issue of shares *(note 13)*		45,000		-	-		-		45,000
Reclassification of contributed surplus to share capital *(note 18)*		16,000		(16,000)	-		-		-
Non-cash stock based compensation *(note 18)*		-		24,079	-		-		24,079
Reclassification of contributed surplus to deficit *(note 18)*		-		(15,796)	-		15,796		-
Net loss attributable to common shareholders		-		-	-		(2,949)		(2,949)
Unrealized foreign exchange loss on translation of foreign subsidiary		-		-	(19,538)		-		(19,538)
Balance at March 31, 2016	**$**	7,495,530	$	791,713	(45,000)	$	(2,713,090)	$	5,529,153

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

CEMATRIX CORPORATION
Consolidated Statements of Cash Flows
For the three months ended March 31 (unaudited)
(in Canadian Dollars)

		2017		2016
Cash generated from (used in):				
Operating activities				
Loss attributable to common shareholders	**$**	**(52,395)**	$	(2,949)
Add (deduct) non-cash items				
Provision of deferred taxes		**(13,639)**		48,223
Depreciation		**130,715**		116,539
Non-cash stock based compensation *(note 18)*		**28,409**		24,079
Gain on sale of property and equipment		**(2,300)**		-
Accretion of non-cash fair market value adjustment on share acquisition loans		**(1,290)**		(3,162)
		89,500		182,730
Net change in non-cash working capital items *(note 19)*		**(455,054)**		151,216
Cash generated from (used in) operations		**(365,554)**		333,946
Investing activities				
Purchase of property and equipment		**(133,443)**		(59,482)
Proceeds on sale of property and equipment		**2,300**		-
Purchase of Intangibles		**(58,794)**		-
Cash used in investing activities		**(189,937)**		(59,482)
Financing activities				
Proceeds from demand operating loan		**287,886**		-
Proceeds from long term debt		**226,700**		-
Proceeds from government grants on intangibles		**16,000**		-
Collection of factored receivables		**-**		(703,462)
Repayments of mezzanine loan		**-**		(250,000)
Repayments of finance lease obligations		**(14,111)**		(18,798)
Issue of common shares		**-**		45,000
Cash generated from (used in) financing activities		**516,475**		(927,260)
Foreign Exchange effect on cash		**536**		(19,538)
Decrease in cash		**(38,480)**		(672,334)
Cash, beginning of period		**51,133**		1,450,785
Cash, end of period	**$**	**12,653**	$	778,451
Cash				
Cash and cash equivalents	**$**	**46,031**	$	778,451
Bank overdraft		**(33,378)**		-
Cash, end of period	**$**	**12,653**	$	778,451
Finance costs paid during the period	**$**	**49,193**	$	68,695

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 three months ended March 31, 2017 were authorized for issue in accordance with a resolution of the Board of Directors on May 3, 2017.

2. Basis of preparation

Statement of compliance
These consolidated financial statements for the three months ended March 31, 2017 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Reporting Interpretation Committee ("IFRIC") in effect at the closing date of March 31, 2017.

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

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

Functional and presentation currency
These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. The functional currency of Cematrix (USA) Inc. is US dollars ("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 described in Note 3 of the audited consolidated financial statements for the year ended December 31, 2016. There has been no changes since that date.

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, 2016. 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 April 1, 2017 or later periods. The standards impacted that are applicable to the Company are as follows:

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”) 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 March 31, 2017 and December 31, 2016:

		2017		2016
Trade receivables	**$**	**3,429,835**	$	1,934,967
Holdbacks		**291,790**		91,611
Other receivables		**85,639**		65,200
	$	**3,807,264**	$	2,091,778

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 March 31, 2017 and December 31, 2016:

		2017		2016
1-30 days	**$**	**965,194**	$	931,720
30-60 days		**1,492,039**		337,535
61-90 days		**14,763**		463,320
Greater than 90 days*		**1,020,939**		202,392
	$	**3,429,835**	$	1,934,967

* In April 2017 a large holdback receivable of $820,000 was collected

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.

6. Inventory

Inventory consists of the following components as at March 31, 2017 and December 31, 2016:

		2017		2016
Raw materials (principally foaming agent)	**$**	**505,703**	$	450,686
Marketing material and spare parts		**9,403**		2,751
	$	**515,106**	$	453,437

Inventory expensed as part of cost of sales was $79,306 and $74,189, respectively, for the three months ended March 31, 2017 and 2016. There were no inventory write-downs in either 2017 or 2016.

7. Share acquisition loans

Share acquisition loans consist of the following components as at March 31, 2017 and December 31, 2016:

		2017		2016
Share acquisition loans, beginning of period	**$**	**67,875**	$	90,500
Repayments		**-**		(22,625)
Share acquisition loans, end of period		**67,875**		67,875
Non-cash fair value adjustment, beginning of period		**(10,605)**		(23,253)
Accretion of non-cash fair value adjustment		**1,290**		12,648
Non-cash fair value adjustment, end of period		**(9,315)**		(10,605)
		58,560		57,270
Less current portion		**(18,759)**		(17,469)
	$	**39,801**	$	39,801

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. Intangibles

Intangibles consist of the following components as at March 31, 2017 and December 31, 2016:

		2017		2016
Foaming agent technology	**$**	**315,000**	$	315,000
Process licenses		**141,110**		141,110
Trademarks		**9,006**		9,006
Product testing costs		**114,690**		71,896
	$	**579,806**	$	537,012

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.

8. Intangibles *(continued)*

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 three months ended March 31, 2017, the Company spent $58,794 on product testing costs, including capitalized labour costs of approximately $15,555, and received government grants of $16,000 (year ended December 31, 2016 – $71,896, $23,000 and $nil, respectively).

9. 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 March 31, 2017 was $1,875,000.

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

The demand operating loan contains covenants in regard to consolidated debt to tangible net worth ratio, consolidated current ratio and consolidated amount of tangible net worth (all calculated monthly), and consolidated cash flow coverage ratio (calculated annually). At March 31, 2017, the Company is in compliance with all of these covenants.

The Loan was $287,886 as at March 31, 2017 ($nil as at December 31, 2016).

10. Trade and other payables

Trade and other payables consist of the following components as at March 31, 2017 and December 31, 2016:

		2017		2016
Trade payables	**$**	**1,556,032**	$	263,201
Accrued interest		**4,035**		4,024
Other accruals		**150,875**		152,369
Payroll remittance and goods & services tax		**88,657**		65,383
	$	**1,799,599**	$	484,977

11. Long term debt

Long term debt consists of the following components as at March 31, 2017 and December 31, 2016:

	Maturity	Interest rate	2017	2016
BDC Financing				
Loan 2	October 1, 2020	Floating	$ **736,494**	$ 736,494
Loan 3	December 1, 2022	Floating	**500,000**	500,000
Loan 4	September 1,2024	Floating	**126,700**	-
Loan 5	September 1, 2021	Floating	**100,000**	-
			1,463,194	1,236,494
Secured Debenture	February 11, 2019	Fixed	**1,000,000**	1,000,000
			2,463,194	2,236,494
Less current portion			**(303.822)**	(284,462)
			$ 2,159,372	$ 1,952,032

Business Development Bank of Canada ("BDC") Financing:

Loan 2 – This loan of $1,406,000 was fully drawn down in 2015. The proceeds from the loan were used to support equipment additions and was 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 of the years 2014 to 2019 and $33,477 monthly from July to October 2020.

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. This loan can be drawn down anytime over the 24 months from the date of the loan. As of March 31, 2017, $126,700 has been drawn down. 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 is 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 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 5 – In March 2017, the Company's wholly owned subsidiary, CEMATRIX (Canada) Inc., entered into an agreement with the BDC for a loan of $100,000 to fund the first year costs related to a program offered by the BDC that will assist the Company in establishing its growth strategy. The loan was fully drawn down in March 2017. The interest, which is payable monthly, is at a variable rate of 1.00% above the BDC floating base rate, currently set at 4.70%. The loan is repayable over four years, with seasonal payments of principal required. Payments of principal

11. Long term debt *(continued)*

of $4,000 are required in August 2017 and $3,840 from September to December 2017, of $3,840 monthly from July to December for each of the years 2018 to 2020 and $3,840 monthly from July to September 2021.

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.

Loan 5 may be prepaid, once in any twelve month period, up to 15% of the then outstanding principal amount but the prepayment privilege is not cumulative. 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.

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 and further to February 2019 in February 2017. The Company can prepay the full amount of the Secured Debenture. Any prepayment in the first year would have included 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 would have included an 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

11. Long term debt *(continued)*

Company subject only to lender charges on receivables and inventory in support of the Companies line of credit and any charges on specific equipment 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.

12. 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 April 2017 to May 2021. The leases are secured by the leased assets which have a carrying value of $252,122 at March 31, 2017 (December 31, 2016 - $263,128). The annual future commitments under the leases are as follows:

2017/18	**$**	87,511
2018/19		56,156
2019/20		107,567
2020/21		5,065
2021/22		726
		257,025
Less imputed interest		(22,201)
		234,824
Current portion		**(74,220)**
	$	**160,604**

Finance lease obligations of $nil were made during the three months ended March 31, 2017 ($nil during the three months ended March 31, 2016).

13. 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 three months ended March 31, 2017 and the year ended December 31, 2016:

	2017		2016	
	Number Of Shares	**$ Amount**	Number Of Shares	$ Amount
Common shares, beginning of year	**34,475,994**	**$7,495,530**	34,175,994	$7,434,530
Common shares issued *(i)*	**-**	**-**	300,000	45,000
Reclassification of contributed surplus *(i)*	**-**	**-**	-	16,000
Common shares, end of year	**34,475,994**	**$7,495,530**	34,475,994	$7,495,530

13. Share capital *(continued)*

(i) Common shares issued

During the year ended December 31, 2016, 300,000 common shares were issued on the exercise of stock options 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.

14. Cost of sales

Cost of sales consists of the following components for the three months ended March 31, 2017 and 2016:

		2017		2016
Manufacture of cellular concrete				
Materials	**$**	**1,180,690**	$	1,498,721
Direct labour		**371,609**		449,830
Variable expenses		**222,100**		316,996
Fixed overhead		**94,747**		63,855
Depreciation		**123,640**		111,141
	$	**1,992,786**	$	2,440,543

15. Finance costs

The finance costs incurred for the three months ended March 31, 2017 and 2016 are as follows:

		2017		2016
Interest				
BDC Financing	**$**	**22,760**	$	16,399
Secured Debenture		**22,500**		22,500
Finance lease obligations		**4,331**		3,898
Mezzanine loan		**-**		27,275
Factoring Discount		**-**		4,013
Demand operating loan		**958**		-
Other		**1,262**		1,473
		51,811		75,558
Accretion of fair value adjustment on share acquisition loans *(note 7)*		**(1,290)**		(3,162)
	$	**50,521**		72,396

16. Other income

Other income for the three months ended March 31, 2017 and 2016 consists of the following:

		2017		2016
Foreign exchange income (expense)	**$**	**(413)**	$	9,136
Gain on sale and retirement of equipment		**2,300**		-
	$	**1,887**	$	9,136

16. Other income *(continued)*

In 2017 the Company sold idle equipment, which had a book value of $nil, for proceeds of $2,300.

17. Loss per common share

The number of common shares included in the computation of basic and diluted loss per common share for the three months years ended March 31, 2017 and 2016 is as follows:

	2017	2016
Weighted average common shares outstanding - basic	**34,475,994**	34,255,115
Effect of stock options	**-**	-
Weighted average common shares outstanding – diluted	**34,475,994**	34,255,115

The stock options for the three months ended March 31, 2017 and 2016 had no dilutive effect as the Company incurred a loss in these periods.

18. 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 March 31, 2017, the Company had 3,425,000 shares reserved for the issuance of stock options (December 31, 2016 – 3,425,000).

Options issued to employees and directors generally vest as to one third immediately on grant and one third on each of next two anniversary dates. 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 three months ended March 31, 2017 and the year ended December 31, 2016:

	2017		2016	
	Number of Options	**Weighted average price**	Number of Options	Weighted average price
Outstanding, beginning of year	**3,425,000**	**$0.25**	3,141,667	$0.20
Granted	**-**	**-**	650,000	$0.42
Exercised	**-**	**-**	(300,000)	$0.15
Expired	**-**	**-**	(66,667)	$0.24
Forfeited	**-**	**-**	-	-
Outstanding, end of period	**3,425,000**	**$0.25**	3,425,000	$0.25
Exercisable, end of period	**2,841,667**	**$0.22**	2,658,333	$0.21

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

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

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.

There are 583,333 options that have not vested as at March 31, 2017 (December 31, 2016 – 766,667 options).

The following table summarizes the options to acquire common shares outstanding as at March 31, 2017:

Grant Date	Number Options	Exercise Price ($)	Weighted average remaining life (years)	Expiry Date
March 26, 2014	900,000	0.145	1.99	March 26, 2019
October 22, 2014	1,625,000	0.240	2.56	October 22, 2019
March 5, 2015	100,000	0.200	2.93	March 5, 2020
April 15, 2015	150,000	0.190	3.04	April 15, 2020
March 18, 2016	300,000	0.400	1.96	March 18, 2019
May 4, 2016	350,000	0.430	3.09	May 4, 2020
	3,425,000			

Non-cash stock based compensation for the three months ended March 31, 2017 and 2016 of $28,409 and $24,079, 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:

	2017	2016*
Estimated per share fair value per option	-	**$0.42**
Risk-free interest rate	-	**0.67%**
Expected life	-	**4 years**
Expected volatility in stock price	-	**130%**
Expected annual dividend yield	-	**nil**
Estimated forfeiture rate	-	**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.

For the three months ended March 31, 2016 the Company reclassified $15,796 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, for the three months ended March 31, 2016 the Company reclassified $16,000 from contributed surplus to share capital related to non-cash stock based compensation for option grants that were exercised in the three months ended March 31, 2016.

19. 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 months ended March 31, 2017 and 2016.

		2017		2016
Trade and other receivables	**$**	**(1,715,486)**	$	903,245
Inventory		**(61,669)**		163,696
Prepaid expenses and deposits		**7,479**		(29,695)
Trade and other payables		**1,314,622**		(886,030)
	$	**(455,054)**	$	151,216

20. Related party transactions

During the three months ended March 31, 2017, the Company incurred legal fees from a firm which employs one of the directors of the Company in the amount of $3,559 ($3,550 for the three months ended March 31, 2016) of which $nil is in trade and other payables as at March 31, 2017 (December 31, 2016 - $nil).

21. Financial instruments and risk management

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

Fair values

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

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

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

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

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

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

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

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 loans, which had a balance of $1,463,194 outstanding at March 31, 2017 and the demand operating loan, which had a balance of $287,886 outstanding at March 31, 2017 are subject to floating market rates. Based on the floating rate debt outstanding as at March 31, 2017, a 1% increase/decrease in interest rates would result in a decrease/increase in net loss attributable to common shareholders of approximately $12,800.

(b) Credit Risk
Financial instruments that subject the Company to credit risk consist primarily of cash, trade receivables and the share acquisition loans. The Company manages credit risk using credit approval and monitoring practices. At March 31, 2017, 5 customers accounted for approximately 91% of trade receivables (at December 31, 2016, 9 customers accounted for approximately 90% of trade receivables). (See Note 5 for details of credit policy and aging of outstanding trade receivables at March 31, 2017 and December 31, 2016). At March 31, 2017, the Company had $46,031 of cash and cash equivalents, a $80,000 term deposit and $58,560 of fair valued share acquisition loans that are outstanding with two officers, and a former officer, of the Company.

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

The table below summarizes the maturity profile of the Company’s financial liabilities at March 31, 2017 and December 31, 2016 based on contractual undiscounted payments.

	Less than 1 year	1 to 2 years	2 to 6 years	Total
As at March 31, 2017				
Bank overdraft	**$ 33,378**	**$ -**	**$ -**	**$ 33,378**
Demand operating loan	**287,886**	**-**	**-**	**287,886**
Trade and other payables	**1,799,599**	**-**	**-**	**1,799,599**
Long-term debt	**303,822**	**1,349,142**	**810,230**	**2,463,194**
Finance lease obligations	**74,220**	**48,722**	**111,882**	**234,824**
	$ 2,498,905	**$ 1,397,864**	**$ 922,112**	**$ 4,818,881**
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

21. 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 USD and the operations of its U.S. subsidiary which are predominantly in USD. The Company does not hedge these items as the timing of related transactions is not certain.

As at March 31, 2017 and December 31, 2016, the following balances are denominated in USD:

		2017	2016
Cash and cash equivalents	**$**	**33,123**	60,666
Trade and other receivables	**$**	**32,934**	39,672
Prepaid expenses and deposits	**$**	**12,650**	9,837
Trade and other payables	**$**	**23,916**	14,317

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 March 31, 2017 a 5% increase/decrease of the USD against the Canadian dollar would result in an increase/decrease in total comprehensive loss of approximately $3,625.

22. 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 three months ended March 31, 2017. The Company is subject to externally imposed financial covenants with its demand operating loan and certain restrictions imposed by the Secured Debenture. As at March 31, 2017, the Company was in compliance with the financial covenants.

The total capitalization as at March 31, 2017 and December 31, 2016 is outlined below:

		2017		2016
Long term debt (*Note 11*)	**$**	**2,463,194**	$	2,236,494
Finance lease obligations *(Note 12)*		**234,824**		248,935
Total debt		**2,698,018**		2,485,429
Shareholders' equity		**4,548,775**		4,572,225
	$	**7,246,793**	$	7,057,654

23. 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 three months ended March 31 2017 and 2016 and the total non-current assets attributable to the Company's geographical segments as at March 31, 2017 and December 31, 2016:

	2017	2016
Sales to external customers*		
Canada	**$ 2,527,471**	$ 3,170,689
U.S.	**-**	-
	$ 2,527,471	$ 3,170,689

	2017	2016
Total non-current assets		
Canada	**$ 4,766,389**	$ 4,706,989
U.S.	**2,677**	2.916
	$ 4,769,066	$ 4,709,905

* Includes sales to one customer of $1,419,500 in the three months ending March 31, 2017 and sales to one customer of $1,057,871 in the three months ended March 31, 2016