

*Energy Technologies Inc.*

# MATRRIX

Drilling. Performance. Focused.

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**Unaudited Condensed Consolidated Financial Statements of**  
**MATRRIX Energy Technologies Inc.**

For the three and six months ended June 30, 2017 and 2016

(Expressed in Canadian Dollars)



**Notice of No Auditor Review of Unaudited Condensed Consolidated Interim Financial Statements**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of MATRRIX Energy Technologies Inc. (the "Corporation") have been prepared by and are the responsibility of the Corporation's management. The Corporation's independent auditor has not performed a review of these unaudited condensed consolidated interim financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

**MATRIX Energy Technologies Inc.**  
Condensed Consolidated Statements of Financial Position

(Stated in thousands of Canadian dollars)	Note	June 30, 2017	December 31, 2016
		\$	\$
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents		2,705	3,608
Trade and other receivables	8	1,365	913
Inventory	4	365	353
Prepaid expenses and deposits		159	154
		4,595	5,028
Property and equipment	5	8,439	9,633
<b>Total assets</b>		<b>13,034</b>	<b>14,661</b>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued liabilities		839	892
<b>Total liabilities</b>		<b>839</b>	<b>892</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital		29,838	29,789
Employee benefit reserve		2,293	2,258
Foreign currency translation reserve		886	877
Deficit		(20,822)	(19,155)
<b>Total equity</b>	6	<b>12,195</b>	<b>13,769</b>
<b>Total liabilities and equity</b>		<b>13,034</b>	<b>14,661</b>
Commitments (Note 9)			

See accompanying notes to these condensed consolidated financial statements

# MATRRIX Energy Technologies Inc.

## Condensed Consolidated Statements of Comprehensive Loss

		Three months ended June 30,		Six months ended June 30,	
(Stated in thousands of Canadian dollars except per share amounts)		2017	2016	2017	2016
		\$	\$	\$	\$
<b>Revenue</b>		1,061	7	2,611	932
Cost of sales:					
Direct operating expenses		788	128	1,734	611
Depreciation	5	602	656	1,225	1,319
		1,390	784	2,959	1,930
<b>Loss from operations</b>		(329)	(777)	(348)	(998)
<b>Expenses</b>					
Administrative expenses		282	255	579	449
Salaries and benefits		344	286	705	595
Share based payments	7	22	50	54	121
Depreciation	5	9	15	20	38
Foreign exchange loss		(4)	-	4	7
		653	606	1,362	1,210
<b>Net loss before interest and other income</b>		(982)	(1,383)	(1,710)	(2,208)
Gain (Loss) from disposition of property and equipment		-	-	-	-
Gain from equipment lost in hole		-	-	30	-
Interest and other income		6	10	13	18
<b>Net Income (loss)</b>		(976)	(1,373)	(1,667)	(2,190)
<b>Other comprehensive income</b>					
Items that may be subsequently reclassified to profit or (loss):					
Foreign currency translation adjustment		-	(1)	9	-
<b>Total comprehensive loss</b>		(976)	(1,374)	(1,658)	(2,190)
<b>Basic loss per common share</b>	3	\$ (0.03)	(\$0.04)	(\$0.05)	(\$0.07)
<b>Diluted loss per common share</b>	3	\$ (0.03)	(\$0.04)	(\$0.05)	(\$0.07)

See accompanying notes to these condensed consolidated financial statements

**MATRIX Energy Technologies Inc.**  
**Condensed Consolidated Statements of Cash Flows**

(Stated in thousands of Canadian dollars)	Note	Three months ended		Six months ended	
		June 30,	June 30,	June 30,	June 30,
		2017	2016	2017	2016
		\$	\$	\$	\$
<b>Cash flows from the following activities:</b>					
<b>Operating activities</b>					
Net loss		(976)	(1,373)	(1,667)	(2,190)
Items not involving cash:					
Share based payments		22	50	54	121
Depreciation	5	611	671	1,245	1,357
Gain on equipment lost in hole		-	-	(30)	-
Unrealized foreign exchange gain (loss)		5	(24)	11	(24)
Funds flow from operations		(338)	(676)	(387)	(736)
Changes in non-cash working capital items:					
Trade and other receivables		(141)	518	(453)	697
Inventory		(12)	12	(12)	46
Prepaid expenses and deposits		(40)	(31)	(5)	3
Accounts payable and accrued liabilities		166	(68)	(53)	(250)
<b>Cash flows from operating activities</b>		<b>(365)</b>	<b>(245)</b>	<b>(910)</b>	<b>(240)</b>
<b>Financing activities</b>					
Stock options exercised		30	-	30	-
<b>Cash flows from financing activities</b>		<b>30</b>	<b>-</b>	<b>30</b>	<b>-</b>
<b>Investing activities</b>					
Purchase of property and equipment		(77)	-	(77)	(34)
Proceeds from the disposition of property and equipment		-	-	-	-
Proceeds from equipment lost in hole		-	-	55	-
Changes in non-cash working capital balances		-	-	-	-
<b>Cash flows used in investing activities</b>		<b>(77)</b>	<b>-</b>	<b>(22)</b>	<b>(34)</b>
<b>Change in cash and cash equivalents</b>		<b>(412)</b>	<b>(245)</b>	<b>(902)</b>	<b>(274)</b>
Effect of foreign exchange rate changes on cash		(2)	26	(1)	26
<b>Cash and cash equivalents, beginning of period</b>		<b>3,119</b>	<b>5,029</b>	<b>3,608</b>	<b>5,058</b>
<b>Cash and cash equivalents, end of period</b>		<b>2,705</b>	<b>4,810</b>	<b>2,705</b>	<b>4,810</b>
<b>Supplementary cash flow disclosure information:</b>					
Interest received during the period		6	10	13	18

See accompanying notes to these condensed consolidated financial statements

**MATRIX Energy Technologies Inc.****Condensed Consolidated Statements of Changes in Equity**

(Stated in thousands of Canadian dollars)

	Share Capital (Note 7)		Employee Benefit Reserve	Foreign Currency Translation Reserve	Deficit	Total Equity
	Shares	Amount \$	\$	\$	\$	\$
Balance as at January 1, 2016	32,185	29,789	2,060	875	(14,732)	17,992
Share based payments expense	-	-	121	-	-	121
Comprehensive income (loss) for the period	-	-	-	-	(2,190)	(2,190)
Balance as at June 30, 2016	32,185	29,789	2,181	875	(16,922)	15,923
Balance as at January 1, 2017	32,185	29,789	2,258	877	(19,155)	13,769
Share based payments expense	-	-	54	-	-	54
Stock Options Exercised	120	30	-	-	-	30
Stock Option Value of Exercised Options	-	19	(19)	-	-	-
Comprehensive income (loss) for the period	-	-	-	9	(1,667)	(1,658)
Balance as at June 30, 2017	32,305	29,838	2,293	886	(20,822)	12,195

See accompanying notes to these condensed consolidated financial statements

# **MATRIX ENERGY TECHNOLOGIES INC.**

(In thousands of Canadian dollars except per share amounts)

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## **Notes to the Condensed Consolidated Financial Statements**

June 30, 2017 and 2016

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### **1. REPORTING ENTITY**

MATRIX Energy Technologies Inc. (the "Corporation") was incorporated pursuant to the provisions of the Canada Business Corporations Act on January 7, 2011 and maintains its head office at Suite 350, 808 4th Ave SW, Calgary, AB T2P 3E8. The Corporation is a publicly-traded company listed on the TSX Venture Exchange under the symbol "MXX". The Corporation is engaged in the provision of horizontal and directional drilling services and technology for the oil and gas industry in North America.

The consolidated financial statements of the Corporation are comprised of the Corporation and its subsidiary MATRIX (US) Energy Technologies Inc.

### **2. BASIS OF PREPARATION**

These condensed consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"), as applicable to interim financial reports including IAS 34, Interim Financial Reporting, and should be read in conjunction with the annual audited financial statements for the year ended December 31, 2016 which have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB").

The significant accounting policies followed in these consolidated financial statements are consistent with those applied in the Corporation's annual audited financial statements for the year ended December 31, 2016.

The preparation of the condensed consolidated financial statements requires management to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses. Judgments and estimates are continually evaluated and are based on historical experience and expectations of future events. While judgments and estimates used by the Corporation are believed to be reasonable under current circumstances, actual results could differ. The Corporation has applied significant judgments on a basis consistent with the December 31, 2016 financial statements.

These condensed consolidated financial statements have been prepared on the historical cost basis, with the exception of share based payments, and are presented in Canadian dollars, which is the Corporation's functional and reporting currency. The Corporation's US subsidiary uses US dollars as its functional currency due to the primary economic environment it operates within. The Corporation did not have any US operations in 2016 and during the six month period ended 2017.

There have been no changes in the Corporation's assessment of risk from the use of financial instruments or in the financial risk management policies of the Corporation since December 31, 2016.

These condensed consolidated financial statements are based on and are in compliance with IFRS effective for the three and six month periods ended June 30, 2017 and were approved by the Corporation's Board of Directors on August 9, 2017.

# MATRIX ENERGY TECHNOLOGIES INC.

(In thousands of Canadian dollars except per share amounts)

## Notes to the Condensed Consolidated Financial Statements

June 30, 2017 and 2016

### 3. EARNINGS PER SHARE

For the three and six month periods ended June 30, 2017, the weighted average basic and diluted number of common shares outstanding excludes 2,613 (2015: 2,902) of stock options.

	Three months ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net Loss	(976)	(1,373)	(1,667)	(2,190)
Weighted average common shares	32,185	32,185	32,185	32,185
Effect of stock options	-	-	-	-
Diluted balance, end of year	32,185	32,185	32,185	32,185
Basic loss per common share	\$ (0.03)	\$ (0.04)	\$ (0.05)	\$ (0.07)
Diluted loss per common share	\$ (0.03)	\$ (0.04)	\$ (0.05)	\$ (0.07)

### 4. INVENTORY

Inventory is mainly comprised of drilling and other equipment repair parts. For the three and six month periods ended June 30, 2017, consumed repair parts included in direct operating expenses amounted to \$50 and \$114, respectively and \$19 and \$27 in 2016 respectively.

# MATRIX ENERGY TECHNOLOGIES INC.

(In thousands of Canadian dollars except per share amounts)

## Notes to the Condensed Consolidated Financial Statements

June 30, 2017 and 2016

### 5. PROPERTY AND EQUIPMENT

	Directional drilling and related equipment	Machinery and other equipment	Office furniture and equipment	Total
<b>Cost</b>				
Balance at December 31, 2015	24,836	460	74	25,370
Additions	23	110	11	144
Disposals	(8)	-	-	(8)
Balance at December 31, 2016	24,851	570	85	25,506
Additions	37	40	-	77
Disposals	(70)	-	-	(70)
Balance at June 30, 2017	24,818	610	85	25,513
<b>Depreciation</b>				
Balance at December 31, 2015	12,884	294	48	13,226
Depreciation for the year	2,565	72	15	2,652
Disposals	(5)	-	-	(5)
Balance at December 31, 2016	15,444	366	63	15,873
Depreciation for the period	1,216	10	20	1,246
Disposals	(45)	-	-	(45)
Balance at June 30, 2017	16,615	376	83	17,074
Balance at December 31, 2016	9,407	204	22	9,633
Balance at June 30, 2017	8,203	234	2	8,439

### 6. CAPITAL MANAGEMENT

The Corporation's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can provide adequate returns for shareholders. The Board of Directors has not established quantitative return on capital criteria for management, but rather relies on the expertise of the Corporation's management to sustain future development of the business. The Corporation defines capital as total equity which was \$12,195 at June 30, 2017 (December 31, 2016: \$13,769).



# MATRIX ENERGY TECHNOLOGIES INC.

(In thousands of Canadian dollars except per share amounts)

## Notes to the Condensed Consolidated Financial Statements

June 30, 2017 and 2016

### 7. SHARE CAPITAL

A summary of the Corporation's outstanding stock options as at June 30, 2017, and the changes for the period then ended, are as follows:

Stock Options	Outstanding	Weighted Average Exercise Price
Outstanding at December 31, 2015	3,206	\$ 0.85
Options granted to employees and directors	160	\$ 0.23
Options exercised	-	\$ -
Options expired	(416)	\$ 0.99
Options forfeited	-	\$ -
Outstanding at December 31, 2016	2,950	\$ 0.40
Options granted to employees and directors	586	\$ 0.26
Options exercised	(120)	\$ 0.25
Options expired	(707)	\$ 0.59
Options forfeited	(96)	\$ 0.21
Outstanding at June 30, 2017	2,613	\$ 0.25

Range of Exercise Prices	Number	Total Outstanding	
		Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
<u>Employees and directors</u>			
\$0.12 to \$0.18	990	\$ 0.13	3.37
\$0.22 to \$0.27	544	\$ 0.25	1.86
\$0.36 to \$0.70	1,079	\$ 0.37	2.93
	2,613	\$ 0.25	2.88

Range of Exercise Prices	Outstanding	Exercisable	
		Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
<u>Employees and directors</u>			
\$0.12 to \$0.18	405	\$ 0.12	3.27
\$0.22 to \$0.27	242	\$ 0.25	1.00
\$0.36 to \$0.70	389	\$ 0.52	0.69
	1,036	\$ 0.30	1.77

# MATRIX ENERGY TECHNOLOGIES INC.

(In thousands of Canadian dollars except per share amounts)

## Notes to the Condensed Consolidated Financial Statements

June 30, 2017 and 2016

### 7. SHARE CAPITAL (Continued)

#### Share Based Payments

For the three and six month periods ended June 30, 2017, the Corporation recorded a share based payment expense of \$22 and \$54, respectively, and \$50 and \$121 in 2016 respectively. The following assumptions were used for the Black-Scholes valuation of these stock options:

	2017	2016
Risk-free interest rate range	1.07% - 1.21%	0.63 - 0.65%
Expected Term	5.0 years	5.0 years
Annualized volatility	134.44% - 161.50%	139.79% - 149.29%
Dividend rate	0.00%	0.00%
Forfeiture rate	10.00%	10.00%
Average fair value per option granted	\$0.26	\$0.13

### 8. FINANCIAL INSTRUMENTS

The Corporation's risk exposures and the impact on the Corporation's financial instruments are summarized below:

#### *Credit risk*

Credit risk arises from the potential that one or more counterparties fail to meet their obligations. The Corporation is normally exposed to credit risk through its accounts receivable balances. The Corporation manages credit risk by assessing the credit worthiness of its customers before providing services and on an ongoing basis monitors the amount and age of balances outstanding. The Corporation views credit risks on its accounts receivable as normal for the industry. The Corporation does not have any accounts receivable at June 30, 2017 that are believed uncollectible. Substantially all of the Corporation's cash and cash equivalents are held by high credit quality financial institutions.

During the six months ended June 30, 2017, MATRRIX had four customers that comprised 27%, 17%, 15% and 10% of total revenue, as compared to four customers that comprised 21, 18%, 17% and 14% of total revenue for the comparative period in 2016.

For the accounts receivable balances outstanding at June 30, 2017, MATRRIX had three customers that comprised 30%, 17% and 16% of the total balance as compared to one customer that comprised 64% for the comparative period in 2016.

# MATRIX ENERGY TECHNOLOGIES INC.

(In thousands of Canadian dollars except per share amounts)

## Notes to the Condensed Consolidated Financial Statements

June 30, 2017 and 2016

### 8. FINANCIAL INSTRUMENTS (continued)

The Corporation's trade and other receivables aging is as follows:

	June 30, 2017	December 31, 2016
Within 30 days	910	615
31 to 60 days	81	226
61 to 90 days	195	-
Over 90 days	179	5
Allowance for doubtful accounts	-	-
Accounts receivable	1,365	913

#### Liquidity risk

The Corporation's objective in managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due by maintaining sufficient cash to settle current liabilities and meet its anticipated 2017 working capital requirements. Due to continued operating losses, the Corporation is exposed to increased liquidity risk. To offset the risk, management closely monitors cash flows and the Corporation's unused line of credit. Should the company continue to experience operating losses, management may be required to obtain additional financial or assess other options. As at June 30, 2017, the Corporation had a current assets balance of \$4,595 to settle current liabilities of \$839.

#### Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

##### a) Interest Rate Risk

The Corporation has no bank debt and invested its excess cash in short-term deposits with a fixed rate of interest at its banking institution and therefore is exposed to interest rate risk; however, this is not considered to be significant due to the short time to maturity and low credit risk.

##### b) Foreign Currency Risk

The Corporation is exposed to foreign currency fluctuations on its financial instruments in relation to its U.S. dollar denominated cash, accounts receivable and accounts payable held in Canada.

The Corporation monitors its foreign currency exposure and attempts to minimize the effect of fluctuations in the U.S. dollar by maintaining appropriate levels of cash and accounts receivable to offset corresponding U.S. dollar denominated accounts payable.

##### c) Fair Value

The Corporation uses the following hierarchy for determining and disclosing the fair value of financial instruments depending on the observable nature of inputs employed in the measurement:

# **MATRIX ENERGY TECHNOLOGIES INC.**

(In thousands of Canadian dollars except per share amounts)

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## **Notes to the Condensed Consolidated Financial Statements**

June 30, 2017 and 2016

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### **8. FINANCIAL INSTRUMENTS (continued)**

Level 1: fair value measurements are based on unadjusted quoted prices in active markets for identical assets or liabilities. An active market for an asset or liability is considered to be a market where transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted indices. Level 2 valuations are based on inputs including quoted forward prices, time value, volatility factors and broker quotes that can be observed or corroborated in the market for the entire duration of the derivative instrument.

Level 3: fair value measurements are based on unobservable information or where the observable data does not support a significant portion of the instrument's fair value.

The carrying amount of cash and cash equivalents, trade and other receivables and accounts payable and accrued liabilities approximates their fair value due to their short-term nature. At June 30, 2017, the Corporation valued its cash and cash equivalents using Level 1 inputs. The Corporation does not have any Level 2 or 3 instruments.

### **9. COMMITMENTS**

The Corporation has not committed to any material capital expenditures as at June 30, 2017.

In Q1 2016 the Corporation renewed its Calgary office lease and signed a new contract regarding its Leduc shop premise both with 2 year terms. The total lease commitment for the remainder of 2017 is \$47 and \$nil in 2018.

### **10. LOANS AND BORROWINGS**

On January 20, 2015, the Corporation entered into an operating loan facility (revolving) in the amount of \$5,000 with a financial institution which was reduced by management to \$2,000 in December 2016. The credit facility bears interest at the bank's prime rate plus 1.0% with interest payable monthly, subject to certain financial ratio covenants and limited to 75% of a defined accounts receivable balance. The credit facility is secured by a general security agreement providing a first security interest over all present and after acquired personal property and specifically registered against any applicable serial-numbered equipment. As at June 30, 2017 the Corporation had not drawn any amount on the facility.