CEMATRIX CORPORATION
Consolidated Financial Statements
(in Canadian dollars)
December 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 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 7, 2018

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 statements of financial position as at December 31, 2017 and December 31, 2016, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes which comprise 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 financial position of Cematrix Corporation as at December 31, 2017 and December 31, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

MNP LLP

Calgary, Alberta
March 7, 2018

Chartered Professional Accountants

MNP

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

		2017		2016
ASSETS				
Current Assets				
Cash and cash equivalents	**$**	**42,933**	$	84,334
Term deposit		**80,000**		80,000
Trade and other receivables *(note 5)*		**871,364**		2,091,778
Inventory *(note 6)*		**444,981**		453,437
Prepaid expenses and deposits		**107,374**		138,909
Current portion of share acquisition loans *(note 7)*		**27,611**		17,469
		1,574,263		2,865,927
Non Current Assets				
Share acquisition loans *(note 7)*		**20,756**		39,801
Property and equipment *(note 8)*		**3,209,391**		3,400,305
Intangibles *(note 9)*		**639,312**		537,012
Deferred taxes *(note 18)*		**1,086,340**		732,787
		4,955,799		4,709,905
Total Assets	**$**	**6,530,062**	$	7,575,832
LIABILITIES and EQUITY				
Current Liabilities				
Bank overdraft	**$**	**55,053**	$	33,201
Demand operating loan *(note 10)*		**66,399**		-
Trade and other payables *(note 11)*		**569,364**		484,977
Current portion of long term debt *(note 12)*		**349,142**		284,462
Current portion of finance lease obligations *(note 13)*		**62,606**		77,060
		1,102,564		879,700
Non Current Liabilities				
Long term debt *(note 12)*		**1,864,085**		1,952,032
Finance lease obligations *(note 13)*		**178,468**		171,875
		2,042,553		2,123,907
Total Liabilities		**3,145,117**		3,003,607
SHAREHOLDERS' EQUITY				
Share capital *(note 14)*		**7,495,530**		7,495,530
Contributed surplus		**903,153**		909,890
Accumulated other comprehensive loss		**(36,947)**		(41,605)
Deficit		**(4,976,791)**		(3,791,590)
Total Shareholders' Equity		**3,384,945**		4,572,225
Total Liabilities and Shareholders' Equity	**$**	**6,530,062**	$	7,575,832

Commitments *(note 25);* Subsequent events *(note 27)*

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 years ended December 31
(in Canadian Dollars)

		2017		2016
Revenue *(note 26)*	**$**	**7,713,906**	$	9,598,861
Cost of sales *(note 15)*		**6,866,103**		8,282,485
Gross margin		**847,803**		1,316,376
Operating expenses				
General and administrative		**1,131,129**		1,140,999
Sales, marketing and engineering		**1,100,247**		1,142,877
Total operating expenses		**2,231,376**		2,283,876
Operating loss		**(1,383,573)**		(967,500)
Non-cash stock based compensation *(note 20)*		**6,737**		(142,256)
Finance costs *(note 16)*		**(207,490)**		(199,936)
Other income (expenses) *(note 17)*		**45,572**		(18,617)
Loss before taxes		**(1,538,754)**		(1,328,309)
Recovery of deferred taxes *(note 18)*		**353,553**		246,860
Net loss attributable to the common shareholders		**(1,185,201)**		(1,081,449)
Other comprehensive income (loss)				
Items that may be reclassified subsequent to profit or loss:				
Unrealized foreign exchange gain (loss) on translation of foreign subsidiary		**4,658**		(16,143)
Total comprehensive loss	**$**	**(1,180,543)**	$	(1,097,592)
Loss per common share *(note 19)*				
Basic	**$**	**(0.034)**	$	(0.031)
Diluted	**$**	**(0.034)**	$	(0.031)
Weighted average number of common shares *(note 19)*				
Basic		**34,475,994**		34,421,076
Diluted		**34,475,994**		34,421,076

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, 2015	$ 7,434,530	$ 799,430	(25,462)	$ (2,725,937)	$ 5,482,561
Issue of shares *(note 14)*	45,000	-	-	-	45,000
Reclassification of contributed surplus to share capital *(note 20)*	16,000	(16,000)	-	-	-
Non-cash stock based compensation *(note 20)*	-	142,256	-	-	142,256
Reclassification of contributed surplus to deficit *(note 20)*	-	(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
Balance at December 31, 2016	$ **7,495,530**	**$** **909,890**	**(41,605)**	**$** **(3,791,590)**	**$** **4,572,225**
Non-cash stock based compensation *(note 20)*	**-**	**(6,737)**	**-**	**-**	**(6,737)**
Net loss attributable to common shareholders	**-**	**-**	**-**	**(1,185,201)**	**(1,185,201)**
Unrealized foreign exchange gain on translation of foreign subsidiary	**-**	**-**	**4,658**	**-**	**4,658**
Balance at December 31, 2017	**$ 7,495,530**	**$ 903,153**	**(36,947)**	**$ (4,976,791)**	**$ 3,384,945**

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)

		2017		2016
Cash generated from (used in):				
Operating activities				
Net loss attributable to common shareholders	**$**	**(1,185,201)**	$	(1,081,449)
Add (deduct) non-cash items				
Recovery of deferred taxes *(note 18)*		**(353,553)**		(246,860)
Depreciation *(note 8)*		**453,961**		489,142
Non-cash stock based compensation *(note 20)*		**(6,737)**		142,256
Loss on sale and retirement of property and equipment *(note 17)*		**6,301**		17,278
Accretion of non-cash fair market value adjustment on share acquisition loans *(note 7)*		**(5,160)**		(12,648)
		(1,090,389)		(692,281)
Net change in non-cash working capital items *(note 21)*		**1,344,792**		941,099
Cash generated from operations		**254,403**		248,818
Investing activities				
Purchase of property and equipment *(note 8)*		**(220,548)**		(342,274)
Proceeds on sale of property and equipment *(note 17)*		**12,300**		42,891
Purchase of intangibles *(note 9)*		**(153,896)**		(71,896)
Purchase of term deposit		**-**		(10,000)
Repayments on share acquisition loans *(note 7)*		**14,063**		22,625
Cash used in investing activities		**(348,081)**		(358,654)
Financing activities				
Proceeds from bank operating loan		**66,399**		-
Proceeds from long term debt *(note 12)*		**280,555**		500,000
Repayments of long term debt *(note 12)*		**(303,822)**		(286,662)
Proceeds from government grants *(note 9)*		**51,596**		-
Repayment on factoring		**-**		(703,462)
Repayment of mezzanine loan		**-**		(750,000)
Repayments of finance lease obligations		**(68,961)**		(78,549)
Issue of common shares *(note 14)*		**-**		45,000
Cash generated from (used in) financing activities		**25,767**		(1,273,673)
Foreign exchange effect on cash		**4,658**		(16,143)
Decrease in cash		**(63,253)**		(1,399,652)
Cash, beginning of year		**51,133**		1,450,785
Cash (cash deficiency), end of year	$	**(12,120)**	$	51,133
Cash (cash deficiency)				
Cash and cash equivalents	$	**42,933**	$	84,334
Bank overdraft		**(55,053)**		(33,201)
Cash (cash deficiency), end of year	$	**(12,120)**	$	51,133
Supplemental Information				
Finance costs paid during the year	$	**209,869**	$	212,640

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, 2017 were authorized for issue in accordance with a resolution of the Board of Directors on March 7, 2018.

2. Basis of preparation

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

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.

(in Canadian dollars)

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:

	2017	2016
Gross margin	**25%**	25%
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, 2017.

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

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable earnings will be available against which the losses can be utilized. Significant estimates are required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable earnings together with future tax planning strategies.

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 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

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

4. Significant accounting policies *(continued)*

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.

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.

4. Significant accounting policies *(continued)*

G) Impairment of non-financial assets *(continued)*

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).

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.

4. Significant accounting policies *(continued)*

J) Income(loss) per common share (continued)

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.

K) Government grants

Government grants are recognized when there is reasonable assurance that the precedent conditions are met and that the grants will be received. The proceeds from the government grants are recorded as a reduction of the related expenditure and are recognized over the same period, in which the costs for which the grant was intended, are expensed.

L) 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.

M) 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)*

N) 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.

O) 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)*

P) New accounting policies

During 2017 the Company adopted new IFRS standards and amendments in accordance with the transitional provisions of each standard as outlined below:

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 was effective for annual periods beginning on or after January 1, 2017.
The adoption of this standard did not have any significant impact on the Company's consolidated financial statements

Q) 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:

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"). The Company has evaluated the impact of adopting IFRS 9 on the consolidated financial statements and will adopt the new standard using the modified retrospective method effective January 1, 2018. The new standard will result in a change of accounting policy for impairment of trade and other receivables using an expected credit loss model as compared to incurred loss model required by IAS 39. The Company will apply the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables. In estimating the lifetime expected loss provision, the Company considered historical industry default rates as well as credit ratings of major customers. The effect of this change in accounting policy will not have a material impact on the Company's consolidated financial statements. Other financial instruments are not expected to have a material impact on the adoption of this standard.

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 is effective for years beginning on or after January 1, 2018 and the Company will adopt the new standard using the modified retrospective method. The Company has evaluated the impact of adopting IFRS 15 on the consolidated financial statements and it will not have a material impact. The Company will be required to provide enhanced disclosures relating to the disaggregation of revenues from contracts with customers, the Company's performance obligations and any significant judgements.

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

(in Canadian dollars)

5. Trade and other receivables

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

		2017		2016
Trade receivables	**$**	**741,951**	$	1,934,967
Holdbacks		**72,148**		91,611
Other receivables		**57,265**		65,200
	$	**871,364**	$	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 December 31, 2017 and 2016:

		2017		2016
1-30 days	**$**	**118,297**	$	931,720
30-60 days		**519,011**		337,535
61-90 days		**26,881**		463,320
Greater than 90 days		**77,762**		202,392
	$	**741,951**	$	1,934,967

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, holdbacks and other receivables. Included in general and administrative expenses is $nil of bad debt expense (2016 - $nil). The Company considers trade accounts receivable past due if they are greater than 60 days, except for holdbacks that have been invoiced, and are part of trade receivables, but are not collectible until the completion of the entire project as discussed above.

6. Inventory

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

		2017		2016
Raw materials (principally foaming agent)	**$**	**444,588**	$	450,686
Marketing material and spare parts		**393**		2,751
	$	**444,981**	$	453,437

Inventory expensed as part of cost of sales was $213,854 and $359,345, respectively, for the years ended December 31, 2017 and 2016. There were no inventory write-downs in either 2017 or 2016.

(in Canadian dollars)

7. Share acquisition loans

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

		2017		2016
Share acquisition loans, beginning of year	**$**	**67,875**	$	90,500
Repayments		**(14,063)**		(22,625)
Share acquisition loans, end of year		**53,812**		67,875
Non-cash fair value adjustment, beginning of year		**(10,605)**		(23,253)
Accretion of non-cash fair value adjustment		**5,160**		12,648
Non-cash fair value adjustment, end of year		**(5,445)**		(10,605)
		48,367		57,270
Less current portion		**(27,611)**		(17,469)
Share acquisition loans, end of year	**$**	**20,756**	$	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.

One of the individuals, who is not a Company employee, with a shareholder loan, of which $25,686 was outstanding at December 31, 2017, was out of the country and was unable to make the scheduled repayment of $8,562. Commencing January 1, 2018 interest will be charged on this outstanding payment at the Bank of Canada prime plus two percent until the outstanding repayment is made. The $8,562 amount is included in the current portion of the share acquisition loans.

(in Canadian dollars)

8. Property and equipment

The movement in the net carrying amounts for each class of property and equipment for the years ending December 31, 2017 and 2016 is outlined below:

		2017		2016
Owned:				
Equipment and cellular material processors				
Carrying amount at the beginning of the year	**$**	**3,030,822**	$	2,811,190
Additions		**144,153**		112,934
Sale and retirements		**-**		(59,911)
Reclassification		**(47,742)**		590,680
Depreciation		**(373,342)**		(424,071)
Carrying amount at the end of the year	**$**	**2,753,891**	$	3,030,822
Vehicles				
Carrying amount at the beginning of the year	**$**	**47,878**	$	8,741
Additions		**60,775**		-
Sale		**(18,601)**		(258)
Reclassification		**66,183**		43,786
Depreciation		**(20,093)**		(4,391)
Carrying amount at the end of the year	**$**	**136,142**	$	47,878
Computer equipment and software				
Carrying amount at the beginning of the year	**$**	**48,735**	$	18,058
Additions		**14,960**		41,029
Depreciation		**(14,361)**		(10,352)
Carrying amount at the end of the year	**$**	**49,334**	$	48,735
Furniture and fixtures and leasehold improvements				
Carrying amount at the beginning of the year	**$**	**9,742**	$	6,184
Additions		**660**		4,674
Depreciation		**(1,142)**		(1,116)
Carrying amount at the end of the year	**$**	**9,260**	$	9,742
Equipment Under Construction*				
Carrying amount at the beginning of the year	**$**	**-**	$	365,354
Additions		**-**		183,637
Reclassification		**-**		(548,991)
Carrying amount at the end of the year	**$**	**-**	$	-

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

Summary owned:				
Carrying amount at the beginning of the year	**$**	**3,137,177**	$	3,209,527
Additions		**220,548**		342,274
Sale and retirement of property and equipment		**(18,601)**		(60,169)
Reclassification		**18,441**		85,475
Depreciation		**(408,938)**		(439,930)
Carrying amount at the end of the year	**$**	**2,948,627**	$	3,137,177

(in Canadian dollars)

8. Property and equipment *(continued)*

Summary Leased:		**2017**		2016
Vehicles and equipment				
Carrying amount at the beginning of the year	**$**	**263,128**	$	267,541
Additions		**61,100**		130,274
Reclassification		**(18,441)**		(85,475)
Depreciation		**(45,023)**		(49,212)
Carrying amount at the end of the year	**$**	**260,764**	$	263,128

Summary:				
Carrying amount at the beginning of the year	**$**	**3,499,305**	$	3,477,068
Additions		**281,648**		472,548
Sale and retirement of equipment, cellular material processors and		**(18,601)**		(60,169)
Depreciation		**(453,961)**		(489,142)
Carrying amount at the end of the year	**$**	**3,209,391**	$	3,400,305

For the year ended December 2017, the Company capitalized labour costs related to equipment under construction of approximately $nil (2016 – $70,000).

At December 31, 2017, the cost and accumulated depreciation of property and equipment was $6,227,696 and $3,018,305, respectively (December 31, 2016, $5,985,718 and $2,585,413, respectively).

9. Intangibles

		2017		2016
Foaming agent technology	**$**	**315,000**	$	315,000
Process licenses		**141,110**		141,110
Trademarks		**9,006**		9,006
Product testing costs		**174,196**		71,896
	$	**639,312**	$	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.

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. During the years ended December 31, 2017 and 2016, respectively, the Company incurred expenditures of $153,896 and $71,896, including capitalized labour costs of approximately $42,700 and $23,000, and received government grants of $51,596 and nil. The government grant program did not start until January 1, 2017.

(in Canadian dollars)

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, 2017 was $590,000, of which $66,399 was outstanding as at December 31, 2017 ($nil at December 31, 2016).

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, 2017, the Company is in compliance with all of these covenants except for the consolidated cash flow coverage and the level of net tangible assets. Subsequent to year end, the Bank have provided relief on these tests for the year ended December 31, 2017 (see Note 27).

11. Trade and other payables

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

		2017		2016
Trade payables	**$**	**325,794**	$	263,201
Accrued interest		**8,325**		4,024
Other accruals		**151,461**		152,369
Payroll remittance and goods & services tax		**83,784**		65,383
	$	**569,364**	$	484,977

(in Canadian dollars)

12. Long term debt

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

	Maturity	Interest rate	2017	2016
BDC Financings				
Loan 1	October 1, 2020	Floating	$ **535,632**	$ 736,494
Loan 2	December 1, 2022	Floating	**416,400**	500,000
Loan 3	September 1, 2024	Floating	**180,555**	-
Loan 4	September 1, 2022	Floating	**80,640**	-
			1,213,227	1,236,494
Secured Debenture	February 11, 2019*	Fixed	**1,000,000**	1,000,000
			2,213,227	2,236,494
Less current portion			**(349,142)**	(284,462)
			$ 1,864,085	$ 1,952,032

Business Development Bank of Canada Financing (“BDC Financing”):

Loan 1 – 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 5.30%. The loan is repayable over seven years. Payments of principal of $33,477 are required monthly from July to December of each of the years to October 2020.

Loan 2 – 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 5.30%. 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 3 - 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 December 31, 2017, $180,555 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 5.30%. 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.

12. Long term debt *(continued)*

Loan 4 – 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 5.30%. The loan is repayable over four years, with seasonal payments of principal required. Payments of principal 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 1 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 2 may be prepaid at any time without indemnity. For Loan 2, 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 3 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 4 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 ("BDC Financings") 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 Financings 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 demand operating loan 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.

(in Canadian dollars)

12. Long term debt *(continued)*

Secured Debenture:

In February 2014 the Company issued a secured debenture for $1,000,000 (“Secured Debenture”) to an unrelated party. 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, with no other items being amended. 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 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 the 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.

13. Finance lease obligations

Finance leases, which relate to the purchase of equipment, bear interest at 8.9% to 16.1% and are repayable in blended monthly payments and mature from January 2018 to July 2022. The leases are secured by the leased assets which have a carrying value of $260,764 (2016 - $263,128). The annual future commitments under the leases are as follows:

2018	**$**	76,908
2019		140,948
2020		37,606
2021		5,904
2022		2,389
		263,755
Less imputed interest		(22,681)
		241,074
Current portion		(62,606)
	$	**178,468**

New finance lease obligations of $61,100 were entered into during the year ended December 31, 2017 ($130,274 during the year ended December 31, 2016).

(in Canadian dollars)

14. 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, 2017 and 2016:

	2017		2016	
	Number Of Shares	**Amount ($)**	Number Of Shares	Amount ($)
Common shares, beginning of year	**34,475,994**	**$7,434,530**	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

(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.

15. Cost of sales

Cost of sales consists of the following components for the years ended December 31, 2017 and 2016:

	2017	2016
Manufacture of cellular concrete		
Materials	**$ 3,782,733**	$ 4,839,669
Direct labour	**1,505,845**	1,617,858
Variable expenses	**758,072**	1,000,002
Fixed overhead	**395,254**	360,564
Depreciation	**424,199**	464,392
	$ 6,866,103	$ 8,282,485

(in Canadian dollars)

16. Finance costs

The finance costs incurred for the years ended December 31, 2017 and 2016 are as follows:

		2017		2016
Interest				
BDC Financings	**$**	**101,011**	$	62,075
Secured Debenture		**90,000**		90,000
Finance lease obligations		**15,685**		16,528
Mezzanine loan		**-**		33,811
Factoring Discount		**-**		4,013
Demand operating loan		**2,085**		2,237
Other		**3,869**		3,920
		212,650		212,584
Accretion of fair value adjustment on share acquisition loans *(note 7)*		**(5,160)**		(12,648)
	$	**207,490**	$	199,936

17. Other income (expenses)

Other income (expenses) for the years ended December 31, 2017 and 2016 consists of the following:

		2017		2016
Equipment rental	**$**	**49,184**	$	-
Foreign exchange income		**1,084**		1,050
Loss on sale and retirement of equipment		**(6,301)**		(17,278)
Other		**1,605**		(2,389)
	$	**45,572**	$	(18,617)

Pursuant to an equipment lease agreement, entered into in 2017, with Lafarge Canada Inc. (”Lafarge”), the Company receives monthly rental payments of $7,900, when the equipment is on site, over an initial term of five years for equipment utilized under the regional market development program with Lafarge. The rental payments, assuming that the equipment remains on site for the full year, are $94,800 for 2018 and $316,000 for 2019 to 2022. The Company retains all risks of ownership of the related equipment, including being responsible for operation and maintenance. For accounting purposes the equipment lease agreement is treated as an operating lease. The net book value of the related equipment is $556,397 as of December 31, 2017.

In 2017 the Company sold a vehicle and equipment, which had a book value of $18,601, for proceeds of $12,300.

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.

(in Canadian dollars)

18. Taxes

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

	2017	2016
Loss before taxes	**$ (1,538,754)**	$ (1,328,309)
Combined statutory tax rate	**27.0%**	27.0%
Computed "expected" tax recovery	**(415,464)**	(358,643)
Differences resulting from:		
Non-cash stock based compensation	**(1,819)**	38,409
Change in enacted rate and other	**12,150**	9,549
Change in deferred tax assets not recognized	**51,580**	63,825
Recovery of deferred taxes	**$ (353,553)**	$ (246,860)

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

	2017	2016
Deferred tax assets		
Non-capital loss carry forwards	**$ 1,482,388**	$ 1,072,301
Cumulative eligible capital	**86,590**	89,659
Finance lease obligations	**65,090**	64,723
Other	**156,177**	94,258
	1,790,245	1,320,941
Deferred tax liabilities		
Property and equipment	**(196,899)**	(155,747)
Intangibles	**(172,614)**	(139,623)
	(369,513)	(295,370)
Deferred tax assets not recognized	**(334,392)**	(292,784)
Deferred tax asset	**$ 1,086,340**	$ 732,787

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 $334,392 (2016 - $292,784) 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; 2036 - $1,083,739; and 2037 - $1,598,279. The Company also has U.S. net operating losses of USD $613,396 (CDN $849,488) which expire between 2032 and 2037.

(in Canadian dollars)

19. 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, 2017 and 2016 is as follows:

	2017	2016
Weighted average common shares outstanding - basic	**34,475,994**	34,421,076
Effect of dilutive instruments	**-**	-
Weighted average common shares outstanding – diluted	**34,475,994**	34,421,076

The stock options for the year ended December 31, 2017 and 2016 have no dilutive effect as the Company incurred a losses in these years.

20. 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, 2017, the Company had 3,275,000 shares reserved for the issuance of existing 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 years ended December 31, 2017 and 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	**100,000**	**$0.18**	650,000	$0.42
Exercised	**-**	**-**	(300,000)	$0.15
Expired	**-**	**-**	(66,667)	$0.24
Forfeited	**(250,000)**	**$0.43**	-	-
Outstanding, end of year	**3,275,000**	**$0.23**	3,425,000	$0.25
Exercisable, end of year	**3,000,000**	**$0.21**	2,658,333	$0.21

During the year ended December 31, 2017, 100,000 options were issued to a new employee and 250,000 options were forfeited when an employee left the Company before any of the options were vested.

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.

(in Canadian dollars)

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

There are 275,000 options that have not vested as at December 31, 2017 (December 31, 2016 – 766,667 options).

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

Grant Date	Number Options	Exercise Price ($)	Weighted average remaining life (years)	Expiry Date
March 26, 2014	900,000	0.145	1.23	March 26, 2019
October 22, 2014	1,625,000	0.240	1.81	October 22, 2019
March 5, 2015	100,000	0.200	2.18	March 5, 2020
April 15, 2015	150,000	0.190	2.29	April 15, 2020
March 18, 2016	300,000	0.400	1.21	March 18, 2019
May 4, 2016	100,000	0.430	2.34	May 4, 2020
August 2, 2017	100,000	0.180	3.59	August 2, 2021
	3,275,000			

In May 2017, 250,000 employee share options were forfeited by an employee who left the Company. None of the options had vested at the time the employee left the Company and as a result the non-cash stock base compensation previously recorded in the amount of $58,245 was reversed to income.

As a result non-cash stock based compensation for the year ended December 31, 2017 was a recovery of $6,737. Non-cash based compensation expense for the year ended December 31, 2016 was $142,256. Non-cash based compensation is recognized in the consolidated statement of loss and comprehensive 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	**$0.14**	$0.42
Risk-free interest rate	**1.44%**	0.67%
Expected life	**4 years**	4 years
Expected volatility in stock price	**113%**	130%
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 year ended December 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, in 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 2016.

(in Canadian dollars)

21. 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, 2017 and 2016.

	2017	2016
Trade and other receivables	**$ 1,220,414**	$ 2,489,090
Inventory	**8,456**	134,533
Prepaid expenses and deposits	**31,535**	(63,267)
Trade and other payables	**84,387**	(1,619,257)
	$ 1,344,792	$ 941,099

22. Related party transactions

During the year ended December 31, 2017, the Company incurred legal fees from a firm which employs one of the directors of the Company in the amount of $20,515 ($44,071 for the year ended December 31, 2016) of which $2,651 is in trade and other payables as at December 31, 2017 (2016 - $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, 2017 and 2016 were as follows:

	2017	2016
Short term employment benefits	**$ 433,532**	$ 445,260
Non-cash stock based compensation *(note 20)*	**1,347**	39,190
	$ 434,879	$ 484,450

23. 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 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.

23. 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 Financings, which had a balance of $1,213,227 outstanding at December 31, 2017, and the demand operating loan, which had a balance at December 31, 2017 of $66,399, are subject to floating market rates. Based on the floating rate debt outstanding as at December 31, 2017, a 1% increase/decrease in interest rates would result in a decrease/increase in net loss attributable to common shareholders of approximately $9,300.

(b) Credit Risk
The Company is responsible for reviewing the credit risk for each customer before standard payment and delivery terms and conditions are offered. The Company review consists of external ratings, when available, and in some cases bank and trade references. Management has established a credit policy under which new customers are analyzed for creditworthiness before the Company extends credit. The Company monitors its trade and other receivables aging on an ongoing basis as part of its process in managing its credit risk. The Company also manages credit risk related to trade and other receivables on a consolidated basis whereby the aggregate exposure to individual customers is reviewed and their credit quality is assessed.

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, 2017, 9 customers accounted for approximately 92% of trade receivables (at December 31, 2016, 9 customers accounted for approximately 90% of trade receivables). For the years ended December 31, 2017 and 2016, 3 customers each accounted for over 10% of revenue. At December 31, 2017, the Company had $42,933 of cash and cash equivalents (2015 - $84,334), an $80,000 term deposit (2016 - $80,000) and $48,367 (2016 - $57,270) 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.

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

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

	Less than 1 year	1 to 2 years	2 to 6 years	Total
As at December 31, 2017				
Bank overdraft	**$ 55,053**	**$ -**	**$ -**	**$ 55,053**
Demand operating loan	**66,399**			**66,399**
Trade and other payables	**569,364**	**-**	**-**	**569,364**
Long-term debt	**349,142**	**1,390,462**	**473,623**	**2,213,227**
Finance lease obligations	**62,606**	**135,287**	**43,181**	**241,074**
	$ 1,102,564	**$ 1,525,749**	**$ 516,804**	**$ 3,145,117**
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

(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:

		2017	2016
Cash and cash equivalents	**$**	**32,136**	60,666
Trade and other receivables	**$**	**39,191**	39,672
Prepaid expenses and deposits	**$**	**10,127**	9,837
Trade and other payables	**$**	**8,148**	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 December 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 $4,600.

24. 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.

(in Canadian dollars)

24. 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, 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 December 31, 2017, the Company was not in compliance with one of the financial covenants related to its demand operating loan (see Note 10 and Note 27).

Total capitalization

		2017		2016
Long term debt (*Note 12*)	**$**	**2,213,227**	$	2,236,494
Finance lease obligations *(Note 13)*		**241,074**		248,935
Total debt		**2,454,301**		2,485,429
Shareholders' equity		**3,384,945**		4,572,225
	$	**5,839,246**	$	7,057,654

25. Commitments

As at December 31, 2017, the Company had annual operating lease commitments for facilities of $302,508 for 2018 and $277,168 for 2019. There are no material other operating leases.

Operating lease payments, net of sub lease rental, recognized as expenses were $326,470 for the year ended December 31, 2017 ($336,964 for the year ended December 31, 2016).

26. 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 2017 and 2016 and the total non-current assets attributable to the Company's geographical segments as at December 31, 2017 and 2016:

		2017		2016
Sales to external customers*				
Canada	**$**	**7,713,906**	$	9,504,557
U.S.		**-**		94,304
	$	**7,713,906**	$	9,598,861

		2017		2016
Total non-current assets				
Canada	**$**	**4,933,555**	$	4,706,989
U.S.		**22,244**		2,916
	$	**4,955,799**	$	4,709,905

27. Subsequent events

(1) On February 26, 2018, the Company announced that it had entered into a letter of intent with MixOnSite USA, Inc. ("MOS") dated February 23, 2018 (the "Letter of Intent") in respect of a proposed transaction pursuant to which the Company is anticipated to acquire all of the issued and outstanding shares of MOS (the "Acquisition"),

MOS is a contractor in the same business as CEMATRIX specializing in low density foam concrete and offering complete installation services including technical mix design support and development for a wide variety of construction applications in the United States.

Pursuant to the Letter of Intent, consideration for the Acquisition shall be as follows:

- cash in the amount of $2,500,000 (USD);
- secured convertible note (the "Convertible Note") issued by the Company in the amount of $2,000,000 (USD);
- 3,343,421 common shares of the Company; and
- earn-out payment calculated on the operations of MOS for three years following closing of the Acquisition.

In addition to the consideration payable, pursuant to the Letter of Intent, the sole shareholder of MOS has agreed to be appointed director of the Company, to remain a consultant for a period of three years and has agreed to provide interim financing in an amount of $750,000 (USD) at a rate of 2% above the prime rate listed at MOS' main bank for a period of one year from the closing of the Acquisition for the purposes of maintaining working capital during the transition of control.

The Letter of Intent contains a condition that the Company obtain sufficient financing to complete the Acquisition and maintain sufficient working capital after closing of the Acquisition in its sole discretion. Such financing is anticipated to come from a combination of debt obtained through one of the Company's Canadian lenders and secured by the assets of MOS in an amount up to $2,500,000 (USD) and an additional amount through a combination of an expanded operating facility and private placement financing (the "Private Placement"), which are expected to be announced and completed prior to the closing of the Acquisition. The net proceeds from the Private Placement will be used to fund the Acquisition and general working capital for the Company.

The transaction terms outlined in the Letter of Intent are binding on the parties however, the Letter of Intent is expected to be superseded by a definitive agreement (the "Definitive Agreement") to be signed between the parties (which agreement shall include representations, warranties, conditions and covenants typical for a transaction of this nature). The Acquisition is subject to the receipt of all necessary regulatory, corporate and third party approvals, including the approval of the Exchange, and the satisfaction of customary closing conditions: including the approval of the Definitive Agreement and the Acquisition by the board directors of the Company; completion of due diligence investigations to the satisfaction of the Company; the arranging of appropriate financing by the Company for the Acquisition; MOS retaining working capital of $750,000 (USD) at closing; compliance with all applicable regulatory requirements and conditions in connection with the Acquisition; the absence of any material adverse condition with respect to the financial and operational condition or the assets of MOS; and the delivery of customary closing documentation.

(2) In March 2018, the Canadian Western Bank granted relief on the consolidated cash flow coverage and the level of net tangible assets in relation to the Company's demand operating loan for the year ended December 31, 2017. In addition, a new commitment letter was received which reduces the level of the demand operating loan to $1,500,000 from $2,000,000 and reduces the required tangible net worth covenant to $3,000,0000 from $4,000,000. There were no other material changes to the previous commitment letter.