

***Unaudited Condensed Consolidated Financial Statements***

For the three and six months ended June 30, 2016 and 2015

**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 MATRIX 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 Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.



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

(Stated in thousands of Canadian dollars)	Note	June 30, 2016	December 31, 2015
		\$	\$
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents		4,810	5,058
Trade and other receivables	8	20	718
Inventory	4	370	416
Prepaid expenses and deposits		122	125
		5,322	6,317
Property and equipment	5	10,821	12,144
<b>Total assets</b>		16,143	18,461
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued liabilities		220	469
<b>Total liabilities</b>		220	469
<b>SHAREHOLDERS' EQUITY</b>			
Share capital		29,789	29,789
Employee benefit reserve		2,181	2,060
Foreign currency translation reserve		875	875
Deficit		(16,922)	(14,732)
<b>Total equity</b>	6	15,923	17,992
<b>Total liabilities and equity</b>		16,143	18,461
Commitments (Note 9)			

See accompanying notes to these condensed consolidated financial statements

# MATRRIX Energy Technologies Inc.

## Condensed Consolidated Statements of Comprehensive Loss

	Note	Three months ended June 30,		Six months ended June 30,	
		2016	2015	2016	2015
(Stated in thousands of Canadian dollars except per share amounts)					
		\$	\$	\$	\$
<b>Revenue</b>		7	391	932	2,494
Cost of sales:					
Direct operating expenses		128	650	611	2,550
Depreciation	5	656	753	1,319	1,531
		784	1,403	1,930	4,081
<b>Loss from operations</b>		(777)	(1,012)	(998)	(1,587)
<b>Expenses</b>					
Administrative expenses		255	413	449	789
Salaries and benefits		286	351	595	856
Share based payments		50	55	121	133
Depreciation	5	15	21	38	45
Foreign exchange (gain) loss		-	46	7	(68)
		606	886	1,210	1,755
<b>Net loss before interest and other income</b>		(1,383)	(1,898)	(2,208)	(3,342)
Gain from equipment lost in hole		-	-	-	142
Interest and other income		10	3	18	3
<b>Net loss</b>		(1,373)	(1,895)	(2,190)	(3,197)
<b>Other comprehensive income</b>					
Items that may be subsequently reclassified to profit or (loss):					
Foreign currency translation adjustment		(1)	(44)	-	216
<b>Total comprehensive loss</b>		(1,374)	(1,939)	(2,190)	(2,981)
<b>Basic loss per common share</b>	3	\$ (0.04)	(\$0.06)	\$ (0.07)	(\$0.10)
<b>Diluted loss per common share</b>	3	\$ (0.04)	(\$0.06)	\$ (0.07)	(\$0.10)

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)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
<b>Cash flows from the following activities:</b>				
<b>Operating activities</b>				
Net loss	(1,373)	(1,895)	(2,190)	(3,197)
Items not involving cash:				
Share based payments	50	55	121	133
Depreciation	671	774	1,357	1,576
Gain on equipment lost in hole	-	-	-	(142)
Unrealized foreign exchange gain	(24)	-	(24)	(116)
Funds flow from operations	(676)	(1,066)	(736)	(1,746)
Changes in non-cash working capital items:				
Trade and other receivables	518	3,715	697	8,039
Inventory	12	87	46	107
Prepaid expenses and deposits	(31)	61	3	127
Accounts payable and accrued liabilities	(68)	(2,092)	(250)	(2,884)
<b>Cash flows from operating activities</b>	(245)	705	(240)	3,643
<b>Investing activities</b>				
Purchase of property and equipment	-	(150)	(34)	(200)
Proceeds from equipment lost in hole	-	-	-	350
Changes in non-cash working capital balances	-	(323)	-	(664)
<b>Cash flows used in investing activities</b>	-	(473)	(34)	(514)
<b>Change in cash and cash equivalents</b>	(245)	232	(274)	3,129
Effect of foreign exchange rate changes on cash	26	65	26	65
<b>Cash and cash equivalents, beginning of period</b>	5,029	5,422	5,058	2,525
<b>Cash and cash equivalents, end of period</b>	4,810	5,719	4,810	5,719
<b>Supplementary cash flow disclosure information:</b>				
Interest received during the period	10	3	18	3

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, 2015	32,185	29,789	1,778	430	(5,240)	26,757
Share based payments expense	-	-	133	-	-	133
Comprehensive income (loss) for the period	-	-	-	216	(3,197)	(2,981)
Balance as at June 30, 2015	32,185	29,789	1,911	646	(8,437)	23,909
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

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, 2016 and 2015

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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 supply of down hole drilling technologies and efficiency 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.

The Corporations operations are often weather dependent, which has a seasonal effect. During the first quarter, the environment in the field is conducive to oilfield activities including frozen conditions allowing oil and gas companies to move heavy equipment to otherwise inaccessible areas. The second quarter is normally a slower period in Canada due to the spring thaw and wet conditions creating weight restrictions on roads and reducing the mobility of heavy equipment, which slows activity levels in the industry. The third and fourth quarters are usually representative of average activity levels. Therefore, interim periods may not be representative of the results expected for the full year of operation due to seasonality.

### **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, 2015 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, 2015.

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, 2015 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.

# MATRIX ENERGY TECHNOLOGIES INC.

(In thousands of Canadian dollars except per share amounts)

## Notes to the Condensed Consolidated Financial Statements

June 30, 2016 and 2015

### 2. BASIS OF PREPARATION (continued)

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, 2015.

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, 2016 and were approved by the Corporation's Board of Directors on August 3, 2016.

### 3. EARNINGS PER SHARE

For the three and six months ended June 30, 2016, the weighted average basic and diluted number of common shares outstanding excludes 2,902 (2015: 2,723) of stock options.

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net Loss	(1,373)	(1,895)	(2,190)	(3,197)
Weighted average common shares	32,185	32,185	32,185	32,185
Effect of stock options	-	-	-	-
Diluted balance, end of period	32,185	32,185	32,185	32,185
Basic loss per common share	\$ (0.04)	\$ (0.06)	\$ (0.07)	\$ (0.10)
Diluted loss per common share	\$ (0.04)	\$ (0.06)	\$ (0.07)	\$ (0.10)

### 4. INVENTORY

Inventory is mainly comprised of drilling and other equipment repair parts. For the three and six months ended June 30, 2016, consumed repair parts included in direct operating expenses amounted to \$19 and \$27, respectively and \$146 and \$45 in 2015, respectively.

# MATRIX ENERGY TECHNOLOGIES INC.

(In thousands of Canadian dollars except per share amounts)

## Notes to the Condensed Consolidated Financial Statements

June 30, 2016 and 2015

### 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, 2014	24,753	450	74	25,277
Additions	241	10	-	251
Disposals	(937)	-	-	(937)
Effect of movements in exchange rates	779	-	-	779
Balance at December 31, 2015	24,836	460	74	25,370
Additions	23	-	11	34
Disposals	-	-	-	-
Effect of movements in exchange rates	-	-	-	-
Balance at June 30, 2016	24,859	460	85	25,404
<b>Depreciation</b>				
Balance at December 31, 2014	6,011	211	34	6,256
Depreciation for the period	2,995	83	15	3,093
Disposals	(141)	-	(1)	(142)
Impairment of assets	3,679	-	-	3,679
Effect of movements in exchange rates	340	-	-	340
Balance at December 31, 2015	12,884	294	48	13,226
Depreciation for the period	1,311	38	8	1,357
Disposals	-	-	-	-
Effect of movements in exchange rates	-	-	-	-
Balance at June 30, 2016	14,195	332	56	14,583
Balance at December 31, 2015	11,952	166	26	12,144
Balance at June 30, 2016	10,664	128	29	10,821

### 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 \$15,923 at June 30, 2016 (December 31, 2015: \$17,992).

# MATRIX ENERGY TECHNOLOGIES INC.

(In thousands of Canadian dollars except per share amounts)

## Notes to the Condensed Consolidated Financial Statements

June 30, 2016 and 2015

### 7. SHARE CAPITAL

A summary of the Corporation's outstanding stock options as at June 30, 2016, and the changes for the period then ended, are as follows:

Stock Options	Outstanding	Weighted Average Exercise Price	
Outstanding at December 31, 2014	2,237	\$	0.85
Options granted to employees and directors	2,279	\$	0.23
Options exercised	-	\$	-
Options expired	(720)	\$	0.99
Options forfeited	(590)	\$	0.70
Outstanding at December 31, 2015	3,206	\$	0.40
Options granted to employees and directors	100	\$	0.14
Options exercised	-	\$	-
Options expired	(404)	\$	0.79
Options forfeited	-	\$	-
Outstanding at June 30, 2016	2,902	\$	0.34

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 \$0.69	2,653	\$ 0.28	2.66
\$0.70 to \$0.99	74	\$ 0.70	1.17
\$1.00 to \$1.25	175	\$ 1.00	0.74
	2,902	\$ 0.34	2.34

Range of Exercise Prices	Outstanding	Exercisable	
		Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
<u>Employees and directors</u>			
\$0.12 to \$0.69	833	\$ 0.33	1.69
\$0.70 to \$0.99	37	\$ 0.70	0.67
\$1.00 to \$1.25	175	\$ 1.00	0.74
	1,045	\$ 0.46	1.49

# MATRIX ENERGY TECHNOLOGIES INC.

(In thousands of Canadian dollars except per share amounts)

## Notes to the Condensed Consolidated Financial Statements

June 30, 2016 and 2015

### 7. SHARE CAPITAL (Continued)

#### Share Based Payments

For the three and six months ended June 30, 2016, the Corporation recorded a share based payment of \$50 and \$121, respectively, and \$55 and \$133 in 2015 respectively. The following assumptions were used for the Black-Scholes valuation of these stock options:

	2016	2015
Risk-free interest rate range	0.65%	0.44 - 0.97%
Weighted average expected life of options	5.0 years	5.0 years
Annualized volatility	150.81%	143.78%
Dividend rate	0.00%	0.00%
Forfeiture rate	10.00%	10.00%
Average fair value per option granted	\$0.16	\$0.17

### 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, 2016 that is believed uncollectible. Substantially all of the Corporation's cash and cash equivalents are held by high credit quality financial institutions.

During the three months ended June 30, 2016, MATRIX had one customer that comprised total revenue, as compared to four customers that comprised 21%, 18%, 17% and 14% of total revenue for the comparative period in 2015.

For the accounts receivable balances outstanding at June 30, 2016, MATRIX had one customer that comprised 64% of the total balance as compared to five customers that comprised 37%, 21%, 15%, 14% and 11% for the comparative 2015 period.

# MATRIX ENERGY TECHNOLOGIES INC.

(In thousands of Canadian dollars except per share amounts)

## Notes to the Condensed Consolidated Financial Statements

June 30, 2016 and 2015

### 8. FINANCIAL INSTRUMENTS (continued)

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

	June 30, 2016	December 31, 2015
Within 30 days	7	148
31 to 60 days	3	220
61 to 90 days	2	-
Over 90 days	8	350
Allowance for doubtful accounts	-	-
Accounts receivable	20	718

#### 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 2016 working capital requirements. As at June 30, 2016, the Corporation had a current assets balance of \$5,322 to settle current liabilities of \$220.

#### 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.

The Corporation believes a fluctuation of the U.S. dollar relative to the Canadian dollar of 10% during the next 12 month reporting period would be reasonably possible.

# MATRIX ENERGY TECHNOLOGIES INC.

(In thousands of Canadian dollars except per share amounts)

## Notes to the Condensed Consolidated Financial Statements

June 30, 2016 and 2015

### 8. FINANCIAL INSTRUMENTS (continued)

	June 30, 2016	December 31, 2015
Cash	116	61
Non-cash current financial assets	-	76
Non-cash current financial liabilities	(86)	(9)
Net US dollar exposure	30	128
Effect of plus (minus) 10% change in the US dollar to Canadian dollar exchange rate on income before tax	3	13

#### 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:

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, 2016, 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, 2016.

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 2016 is \$65 and \$119 in 2017.

# MATRIX ENERGY TECHNOLOGIES INC.

(In thousands of Canadian dollars except per share amounts)

## Notes to the Condensed Consolidated Financial Statements

June 30, 2016 and 2015

### 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. 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, 2016 the Corporation had not drawn any amount on the facility.

### 11. OPERATING SEGMENTS

Management evaluates the Corporation's performance on a geographically segmented basis. The composition of the geographic segments and segment information reported in the consolidated financial statements are consistent with the internal management reporting provided to executive management.

The Corporation has identified the following two reportable geographical segments: Canada and the United States. For both segments, the Corporation is engaged in providing the services and supply of oil and gas down hole drilling technologies and efficiency to customers. As of September 2015 the Corporation temporarily ceased operations in the United States and has focused its efforts in Canada.

	As at and for the six months ended June 30,					
	2016			2015		
	Canada	USA	Total	Canada	USA	Total
External Revenue	932	-	932	2,337	157	2,494
Net loss	(2,179)	(11)	(2,190)	(2,499)	(698)	(3,197)
Depreciation	1,357	-	1,357	1,303	273	1,576
Assets	16,029	114	16,143	20,929	3,613	24,542
Liabilities	213	7	220	454	179	633
Property and equipment, net	10,821	-	10,821	14,063	3,143	17,206
Capital expenditures (net of lost in hole replacements)	34	-	34	200	-	200
Proceeds from the equipment lost in hole	-	-	-	350	-	350

	For the 3 months ended June 30,					
	2016			2015		
	Canada	USA	Total	Canada	USA	Total
External Revenue	7	-	7	234	157	391
Net income (loss)	(1,372)	(1)	(1,373)	(1,549)	(346)	(1,895)
Depreciation	671	-	671	638	136	774
Capital expenditures (net of lost in hole replacements)	-	-	-	150	-	150

# **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, 2016 and 2015

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### **11. OPERATING SEGMENTS (continued)**

There are no material differences in the basis of accounting or the measurement of income, assets and liabilities between the Corporation and reported segment information, except that certain inter-company liabilities and equity are offset with the assets of the US segment.