Energy Technologies Inc.

MATRRIX

Drilling. Performance. Focused.

Unaudited Condensed Consolidated Financial Statements of

MATRRIX Energy Technologies Inc.

For the three months ended March 31, 2017 and 2016

(Expressed in Canadian Dollars)

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

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

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

MATRRIX Energy Technologies Inc.

Condensed Consolidated Statements of Financial Position

(Stated in thousands of Canadian dollars)	Note	March 31, 2017	December 31, 2016
		$	$
ASSETS			
Current assets:			
Cash and cash equivalents		3,119	3,608
Trade and other receivables	8	1,225	913
Inventory	4	353	353
Prepaid expenses and deposits		119	154
		4,816	5,028
Property and equipment	5	8,974	9,633
Total assets		13,790	14,661
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities		673	892
Total liabilities		673	892
SHAREHOLDERS' EQUITY			
Share capital		29,789	29,789
Employee benefit reserve		2,290	2,258
Foreign currency translation reserve		886	877
Deficit		(19,848)	(19,155)
Total equity	6	13,117	13,769
Total liabilities and equity		13,790	14,661

Commitments (Note 9)

See accompanying notes to these condensed consolidated financial statements

MATRRIX Energy Technologies Inc.

Condensed Consolidated Statements of Comprehensive Loss

(Stated in thousands of Canadian dollars except per share amounts)	Note	Three months ended March 31, 2017	2016
		$	$
Revenue		1,549	925
Cost of sales:			
Direct operating expenses		946	483
Depreciation	5	623	663
		1,569	1,146
Loss from operations		(20)	(221)
Expenses			
Administrative expenses		297	193
Salaries and benefits		361	308
Share based payments	7	32	71
Depreciation	5	11	23
Foreign exchange loss		9	8
		710	603
Net loss before interest and other income		(730)	(824)
Gain from equipment lost in hole		30	-
Interest and other income		7	8
Net Income (loss)		(693)	(816)
Other comprehensive income			
Items that may be subsequently reclassified to profit or (loss):			
Foreign currency translation adjustment		9	1
Total comprehensive loss		(684)	(815)
Basic loss per common share	3	($0.02)	($0.03)
Diluted loss per common share	3	($0.02)	($0.03)

See accompanying notes to these condensed consolidated financial statements

MATRRIX Energy Technologies Inc.
Condensed Consolidated Statements of Cash Flows

(Stated in thousands of Canadian dollars)	Note	Three months ended March 31, 2017	2016
		$	$
Cash flows from the following activities:			
Operating activities			
Net loss		(693)	(816)
Items not involving cash:			
Share based payments		32	71
Depreciation	5	634	686
Gain on equipment lost in hole		(30)	-
Unrealized foreign exchange gain (loss)		8	(17)
Funds flow from operations		(49)	(76)
Changes in non-cash working capital items:			
Trade and other receivables		(312)	180
Inventory		-	34
Prepaid expenses and deposits		35	34
Accounts payable and accrued liabilities		(219)	(181)
Cash flows from operating activities		(545)	(9)
Investing activities			
Purchase of property and equipment		-	(38)
Proceeds from equipment lost in hole		55	-
Cash flows used in investing activities		55	(38)
Change in cash and cash equivalents		(490)	(47)
Effect of foreign exchange rate changes on cash		1	18
Cash and cash equivalents, beginning of period		3,608	5,058
Cash and cash equivalents, end of period		3,119	5,029
Supplementary cash flow disclosure information:			
Interest received during the period		7	8

See accompanying notes to these condensed consolidated financial statements

MATRRIX Energy Technologies Inc.

Condensed Consolidated Statements of Changes in Equity

(Stated in thousands of Canadian dollars)

	Share Capital (Note 7) Shares	Share Capital (Note 7) Amount $	Employee Benefit Reserve $	Foreign Currency Translation Reserve $	Deficit $	Total Equity $
Balance as at January 1, 2016	32,185	29,789	2,060	875	(14,732)	17,992
Share based payments expense	-	-	71	-	-	71
Comprehensive income (loss) for the period	-	-	-	1	(816)	(815)
Balance as at March 31, 2016	32,185	29,789	2,131	876	(15,548)	17,248
Balance as at January 1, 2017	32,185	29,789	2,258	877	(19,155)	13,769
Share based payments expense	-	-	32	-	-	32
Comprehensive income (loss) for the period	-	-	-	9	(693)	(684)
Balance as at March 31, 2017	32,185	29,789	2,290	886	(19,848)	13,117

See accompanying notes to these condensed consolidated financial statements

1. REPORTING ENTITY

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

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

2. BASIS OF PREPARATION

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

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

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

These condensed consolidated financial statements have been prepared on the historical cost basis, with the exception of share based payments, and are presented in Canadian dollars, which is the Corporation’s functional and reporting currency. The Corporation’s US subsidiary uses US dollars as its functional currency due to the primary economic environment it operates within. The Corporation did have any US operations in 2016 and during three month period ended 2017.

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

These condensed consolidated financial statements are based on and are in compliance with IFRS effective for the three month period ended March 31, 2017 and were approved by the Corporation’s Board of Directors on May 17, 2017.

(In thousands of Canadian dollars except per share amounts)

3. EARNINGS PER SHARE

For the three month period ended March 31, 2017, the weighted average basic and diluted number of common shares outstanding excludes 2,466 (2015: 2,827) of stock options.

	Three Months Ended March 31, 2017	2016
Net Loss	(693)	(816)
Weighted average common shares	32,185	32,185
Effect of stock options	-	-
Diluted balance, end of year	32,185	32,185
Basic loss per common share	$ (0.02)	$ (0.03)
Diluted loss per common share	$ (0.02)	$ (0.03)

4. INVENTORY

Inventory is mainly comprised of drilling and other equipment repair parts. For the three month period ended March 31, 2017, consumed repair parts included in direct operating expenses amounted to $50 (2015: $8).

(In thousands of Canadian dollars except per share amounts)

5. PROPERTY AND EQUIPMENT

	Directional drilling and related equipment	Machinery and other equipment	Office furniture and equipment	Total
Cost				
Balance at December 31, 2015	24,836	460	74	25,370
Additions	23	110	11	144
Disposals	(8)	-	-	(8)
Balance at December 31, 2016	24,851	570	85	25,506
Additions	-	-	-	-
Disposals	(70)	-	-	(70)
Balance at March 31, 2017	24,781	570	85	25,436
Depreciation				
Balance at December 31, 2015	12,884	294	48	13,226
Depreciation for the year	2,565	72	15	2,652
Disposals	(5)	-	-	(5)
Balance at December 31, 2016	15,444	366	63	15,873
Depreciation for the period	618	5	11	634
Disposals	(45)	-	-	(45)
Balance at March 31, 2017	16,017	371	74	16,462
Balance at December 31, 2016	9,407	204	22	9,633
Balance at March 31, 2017	8,764	199	11	8,974

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 $13,117 at March 31, 2017 (December 31, 2016: $13,769).

(In thousands of Canadian dollars except per share amounts)

7. SHARE CAPITAL

A summary of the Corporation's outstanding stock options as at March 31, 2017, and the changes for the period then ended, are as follows:

Stock Options	Outstanding	Weighted Average Exercise Price	
Outstanding at December 31, 2015	3,206	$	0.85
Options granted to employees and directors	160	$	0.23
Options exercised	-	$	-
Options expired	(416)	$	0.99
Options forfeited	-	$	-
Outstanding at December 31, 2016	2,950	$	0.40
Options granted to employees and directors	60	$	0.22
Options exercised	-	$	-
Options expired	(544)	$	0.66
Options forfeited	-	$	-
Outstanding at March 31, 2017	2,466	$	0.25

	Total Outstanding			
Range of Exercise Prices	Number	Weighted Average Exercise Price		Weighted Average Remaining Contractual Life (Years)
Employees and directors				
$0.12 to $0.18	1,020	$	0.13	3.62
$0.22 to $0.25	851	$	0.25	1.51
$0.36 to $0.70	595	$	0.48	1.18
	2,466	$	0.25	2.30

	Exercisable			
Range of Exercise Prices	Outstanding	Weighted Average Exercise Price		Weighted Average Remaining Contractual Life (Years)
Employees and directors				
$0.12 to $0.18	420	$	0.12	3.53
$0.22 to $0.25	264	$	0.25	0.25
$0.36 to $0.70	406	$	0.52	0.88
	1,090	$	0.30	1.75

(In thousands of Canadian dollars except per share amounts)

7. SHARE CAPITAL (Continued)

Share Based Payments

For the three month period ended March 31, 2017, the Corporation recorded a share based payment expense of $32 (2016: $71). The following assumptions were used for the Black-Scholes valuation of these stock options:

	2017	2016
Risk-free interest rate range	1.07%	0.63 - 0.65%
Expected Term	5.0 years	5.0 years
Annualized volatility	134.44%	139.79%
Dividend rate	0.00%	0.00%
Forfeiture rate	10.00%	10.00%
Average fair value per option granted	$0.22	$0.13

8. FINANCIAL INSTRUMENTS

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

Credit risk

Credit risk arises from the potential that one or more counterparties fail to meet their obligations. The Corporation is normally exposed to credit risk through its accounts receivable balances. The Corporation manages credit risk by assessing the credit worthiness of its customers before providing services and on an ongoing basis monitors the amount and age of balances outstanding. The Corporation views credit risks on its accounts receivable as normal for the industry. The Corporation does not have any accounts receivable at March 31, 2017 that are believed uncollectible. Substantially all of the Corporation’s cash and cash equivalents are held by high credit quality financial institutions.

During the three months ended March 31, 2017, MATRRIX had four customers that comprised 34%, 14%, 11% and 11% of total revenue, as compared to two customers that comprised 86% and 12% of total revenue for the comparative period in 2016.

For the accounts receivable balances outstanding at March 31, 2017, MATRRIX had four customers that comprised 19%, 16%, 15% and 15% of the total balance as compared to two customers that comprised 70% and 22% for the comparative period in 2016.

(In thousands of Canadian dollars except per share amounts)

8. FINANCIAL INSTRUMENTS (continued)

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

	March 31, 2017	December 31, 2016
Within 30 days	695	615
31 to 60 days	340	226
61 to 90 days	189	-
Over 90 days	-	5
Allowance for doubtful accounts	-	-
Accounts receivable	1,225	913

Liquidity risk

The Corporation's objective in managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due by maintaining sufficient cash to settle current liabilities and meet its anticipated 2017 working capital requirements. Due to continued operating losses, the Corporation is exposed to increased liquidity risk. To offset the risk, management closely monitors cash flows and the Corporation's unused line of credit. Should the company continue to experience operating loses, management may be required to obtain additional financial or assess other options. As at March 31, 2017, the Corporation had current assets balance of $4,816 to settle current liabilities of $673.

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.

(In thousands of Canadian dollars except per share amounts)

8. FINANCIAL INSTRUMENTS (continued)

	March 31, 2017	December 31, 2016
Cash	4	11
Non-cash current financial assets	-	-
Non-cash current financial liabilities	(77)	(49)
Net US dollar exposure	(73)	(38)
Effect of plus (minus) 10% change in the US dollar to Canadian dollar exchange rate on income before tax	(7)	(4)

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 March 31, 2017, the Corporation valued its cash and cash equivalents using Level 1 inputs. The Corporation does not have any Level 2 or 3 instruments.

9. COMMITMENTS

The Corporation has not committed to any material capital expenditures as at March 31, 2017.

In Q1 2016 the Corporation renewed its Calgary office lease and signed a new contract regarding its Leduc shop premise both with 2 year terms. The total lease commitment for the remainder of 2017 is $80 and $nil in 2018.

10. LOANS AND BORROWINGS

On January 20, 2015, the Corporation entered into an operating loan facility (revolving) in the amount of $5,000 with a financial institution which was reduced by management to $2,000 in December 2016. The credit facility bears interest at the bank's prime rate plus 1.0% with interest payable monthly, subject to certain financial ratio covenants and limited to 75% of a defined accounts receivable balance. The credit facility is secured by a general security agreement providing a first security interest over all present and after acquired personal property and specifically registered against any applicable serial-numbered equipment. As at March 31, 2017 the Corporation had not drawn any amount on the facility.