

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

For the three and nine months ended September 30, 2018 and 2017

(Expressed in Canadian Dollars)

**MATRIX Energy Technologies Inc.**

## Condensed Consolidated Statements of Financial Position

(Stated in thousands of Canadian dollars)	Note	September 30, 2018	December 31, 2017
		\$	\$
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents		2,873	15,135
Trade and other receivables	11	3,136	5,752
Inventory	6	148	281
Prepaid expenses and deposits		229	260
		<u>6,386</u>	<u>21,428</u>
Non-current Assets			
Property and equipment	7	36,249	20,636
Goodwill	8	461	461
Total Assets		<u>43,096</u>	<u>42,525</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable and accrued liabilities		1,775	3,511
Short-term debt	14	655	-
Non-Current Liabilities			
Convertible Debentures	15	2,395	2,297
Total liabilities		<u>4,825</u>	<u>5,808</u>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	10	62,049	58,448
Employee benefit reserve	10	3,313	3,150
Equity Component of Convertible Debentures	15	265	265
Foreign currency translation reserve		893	884
Deficit		(28,249)	(26,030)
Total equity		<u>38,271</u>	<u>36,717</u>
Total liabilities and equity		<u>43,096</u>	<u>42,525</u>

See accompanying notes to these condensed consolidated financial statements

**MATRIX Energy Technologies Inc.**

## Condensed Consolidated Statements of Comprehensive Income (Loss)

(Stated in thousands of Canadian dollars except per share amounts)	Note	Three months ended, September 30,		Nine months ended, September 30,	
		2018	2017	2018	2017
		\$	\$	\$	\$
<b>Revenue</b>	3	4,785	1,933	14,307	4,544
Cost of sales:					
Direct operating expenses		3,538	1,351	10,348	3,086
Depreciation	7	840	588	2,370	1,813
		4,378	1,939	12,718	4,899
<b>Income (loss) from operations</b>		407	(6)	1,589	(355)
<b>Expenses</b>					
Administrative		482	331	1,457	910
Salaries and benefits		608	386	1,811	1,091
Non-recurring restructuring charges		-	-	330	-
Share based payments	10	52	71	199	124
Transaction costs	4	46	-	539	-
Depreciation	7	1	4	3	24
Foreign exchange loss (gain)		29	(37)	59	(32)
		1,218	755	4,398	2,117
<b>Net loss before interest and other income (expense)</b>		(811)	(761)	(2,809)	(2,472)
Gain from disposition of property and equipment		-	-	313	-
Gain from equipment lost in hole		-	12	635	42
Interest and other income		2	6	29	19
Interest on convertible debenture	15	(65)	-	(195)	-
Accretion on debentures	15	(31)	-	(98)	-
<b>Net income (loss)</b>		(905)	(743)	(2,125)	(2,411)
<b>Other comprehensive income</b>					
Items that may be subsequently reclassified to profit or (loss):					
Foreign currency translation adjustment		-	(2)	9	6
<b>Total comprehensive income (loss)</b>		(905)	(745)	(2,116)	(2,405)
<b>Basic income (loss) per common share</b>	5	(\$0.01)	(\$0.02)	(\$0.02)	(\$0.07)
<b>Diluted income (loss) per common share</b>	5	(\$0.01)	(\$0.02)	(\$0.02)	(\$0.07)

**MATRIX Energy Technologies Inc.**

## Condensed Consolidated Statements of Cash Flow s

(Stated in thousands of Canadian dollars)		Three months ended,		Nine months ended,	
		September 30,		September 30,	
	Note	2018	2017	2018	2017
		\$	\$	\$	\$
<b>Cash flows from the following activities:</b>					
<b>Operating activities</b>					
Net loss		(905)	(743)	(2,125)	(2,411)
Adjustments for:					
Share based payments		52	71	199	124
Depreciation	7	841	592	2,373	1,837
Gain on disposition of property and equipment		-	-	(313)	-
Gain on equipment lost in hole		-	(12)	(635)	(42)
Accretion of debentures	15	31	-	98	-
Transaction costs		46	-	539	-
Unrealized foreign exchange gain		5	(24)	8	(11)
Interest on debentures	15	65	-	195	-
Funds flow from operations		135	(116)	339	(503)
Changes in non-cash working capital items:					
Trade and other receivables		(224)	(283)	3,072	(736)
Inventory		5	26	(1)	14
Prepaid expenses and deposits		(41)	(125)	40	(130)
Accounts payable and accrued liabilities		(157)	(59)	(1,772)	(112)
<b>Cash flows from operating activities</b>		<b>(282)</b>	<b>(557)</b>	<b>1,678</b>	<b>(1,467)</b>
<b>Financing activities</b>					
Proceeds from issuance of common shares		-	1,157	-	1,157
Interest on debentures	15	(65)	-	(195)	-
Proceeds from short-term debt	14	655	-	655	-
Stock options exercised	10	13	-	46	30
<b>Cash flows from financing activities</b>		<b>603</b>	<b>1,157</b>	<b>506</b>	<b>1,187</b>
<b>Investing activities</b>					
Purchase of property and equipment	7	(2,364)	-	(14,703)	(77)
Proceeds from the disposition of property and equipment		-	-	562	-
Cash from D2 acquisition (net)	4	-	-	(523)	-
Transaction costs	4	(46)	-	(539)	-
Proceeds from equipment lost in hole		-	26	756	81
<b>Cash flows from investing activities</b>		<b>(2,410)</b>	<b>26</b>	<b>(14,447)</b>	<b>4</b>
<b>Change in cash and cash equivalents</b>		<b>(2,089)</b>	<b>626</b>	<b>(12,263)</b>	<b>(276)</b>
Effect of foreign exchange rate changes on cash		(9)	18	1	17
<b>Cash and cash equivalents, beginning of period</b>		<b>4,971</b>	<b>2,705</b>	<b>15,135</b>	<b>3,608</b>
<b>Cash and cash equivalents, end of the period</b>		<b>2,873</b>	<b>3,349</b>	<b>2,873</b>	<b>3,349</b>
<b>Supplementary cash flow disclosure information:</b>					
Interest paid during the period		65	-	195	-
Interest received during the period		2	6	29	19

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 10)		Employee Benefit Reserve	Equity Component of Debenture	Foreign Currency Translation Reserve	Deficit	Total Equity
	Shares	Amount \$					
Balance as at January 1, 2017	32,185	29,789	2,258	-	877	(19,155)	13,769
Share based payments expense	-	-	124	-	-	-	124
Stock Options exercised	120	30	-	-	-	-	30
Stock Option Value of Exercised Options	-	19	(19)	-	-	-	-
Comprehensive income (loss) for the period	-	-	-	-	6	(2,411)	(2,405)
Common Shares issued - private placement	3,673	1,157	-	-	-	-	1,157
Balance as at September 30, 2017	35,978	30,995	2,363	-	883	(21,566)	12,675
Balance as at January 1, 2018	123,079	58,448	3,150	265	884	(26,030)	36,717
Share based payments expense	-	-	199	-	-	-	199
Stock Options exercised	273	46	-	-	-	-	46
Stock Option Value of Exercised Options	-	36	(36)	-	-	-	-
Comprehensive income (loss) for the period	-	-	-	-	9	(2,125)	(2,116)
Common Shares issued - D2 Acquisition	6,667	3,000	-	-	-	-	3,000
Common Shares issued - Red Dog asset purchase	1,573	519	-	-	-	-	519
January 1, 2018 increase in estimated credit loss resulting from the implementation of IFRS 9	-	-	-	-	-	(94)	(94)
Balance as at September 30, 2018	131,592	62,049	3,313	265	893	(28,249)	38,271

See accompanying notes to these condensed consolidated financial statements

**MATRIX ENERGY TECHNOLOGIES INC.**  
**(In thousands of Canadian dollars except for per share amounts)**

**Notes to the Condensed Consolidated Financial Statements**  
**September 30, 2018 and 2017**

**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 Bow Valley Square IV, 250 – 6<sup>th</sup> Ave SW 22<sup>nd</sup> Floor, Calgary, AB, T2P 3H7. The Corporation is a publicly-traded company listed on the TSX Venture Exchange under the symbol "MXX". The Corporation offers oilfield services to the oil and natural gas industry in the Western Canadian Sedimentary Basin ("WCSB"). The consolidated financial statements of the Corporation are comprised of the Corporation and its subsidiary MATRIX (US) Energy Technologies Inc.

**2. BASIS OF PREPARATION**

**(a) Statement of compliance**

These condensed consolidated interim financial statements were prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations by the International Financial Reporting Interpretations Committee (IFRIC). They should be read in conjunction with the annual financial statements for the year ended December 31, 2017. Unless otherwise noted, the Company has consistently applied the same accounting policies throughout all periods presented, as if these policies were always in effect.

These consolidated financial statements have been prepared on the historical cost basis, except as disclosed in the significant accounting policies in Note 3, 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.

These consolidated financial statements were approved and authorized for issue by the Corporation's Board of Directors on November 13, 2018 and are in compliance with IFRS including IAS 34.

An assessment or comparison of the Corporation's quarterly results, at any given time, requires consideration of crude oil and natural gas commodity prices and the seasonal nature of the oil and gas industry in North America. Commodity prices ultimately drive the level of exploration and development activities carried out by the Corporation's customers and associated demand for the oilfield services provided by MATRIX. Results are impacted by the gain or loss of key customers. As there are few formal contracts in place, gains or losses of key customers can fluctuate on a quarterly basis. From a seasonality perspective, MATRIX currently operates all of its directional and horizontal systems and drilling rigs in western Canada; therefore, operations are impacted by weather and seasonal factors. The winter season, which incorporates the first quarter, is generally a higher activity period as oil and gas companies take advantage of frozen ground conditions to move heavy equipment and operate in regions which might otherwise be inaccessible due to ground conditions during warmer periods. The second quarter normally encompasses a slow period in Canada referred to as spring break-up. During this period, melting conditions result in temporary municipal road bans that effectively prohibit the movement of drilling rigs and other heavy equipment. The third and fourth quarters in western Canada are usually representative of average activity levels.

**3. SIGNIFICANT ACCOUNTING POLICIES**

*Depreciation*

As a result of recent acquisitions, the company's salvage value for rigs and related equipment is now 10-20%.

**Recent pronouncements and application of new and revised International Financial Reporting Standards**

Except as noted below, the September 30, 2018 unaudited condensed consolidated financial statements follow the same accounting policies and methods of application as the most recent annual audited financial statements.

Certain new or amended standards or interpretations have been issued by the International Accounting Standards Board ("IASB") or the International Financial Reporting Interpretations Committee ("IFRIC") that are not required to be adopted in the current period. The Corporation has not early adopted these standards or interpretations. The standards which the Corporation anticipates may have a material effect on the consolidated financial statements or note disclosures are described below.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

Changes in accounting policies:

1) IFRS 9

IFRS 9, "Financial Instruments" replaces existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 amends its classification and measurement of financial assets and introduces a new expected loss impairment model and new general hedge accounting requirements. This standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Corporation has adopted IFRS 9 for the annual period beginning on January 1, 2018. The adjustment to opening deficit as of January 1, 2018 due to the cumulative impact of adopting IFRS 9 was \$94. The impact to net earnings for the nine months ended September 30, 2018 was \$18.

Financial Instruments

The new guidance under IFRS 9 Financial Instruments does not affect the Corporation's classification, measurement and recognition of financial assets and financial liabilities. The Corporation does not have any hedging arrangements. The new impairment model under IFRS 9 requires the recognition of impairment provisions based on expected and incurred credit losses rather than only incurred credit losses. The Corporation applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected credit loss model to its trade accounts receivable. Lifetime expected credit losses are the result of all possible default events over the expected life of the financial instrument.

Classification

From January 1, 2018, the Corporation classifies its financial assets in the following two measurement categories: (1) those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and (2) those to be measured at amortized cost. The classification depends on the Corporation's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. The Corporation reclassifies financial assets when and only when its business model for managing those assets changes.

Measurement

At initial recognition, the Corporation measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Subsequent measurement of financial assets depends on the Corporation's business model for managing the asset and the cash flow characteristics of the asset.

There are three measurement categories into which the Corporation classifies its financial assets:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented together with foreign exchange gains and losses. Impairment losses are presented as separate line item in profit or loss.
- Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and recognized in other gains and losses. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains or losses and impairment expenses are presented as separate line item in profit or loss.
- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a financial asset that is subsequently measured at fair value through profit or loss is recognized in profit or loss and presented net within other gains or losses in the period in which it arises.

**MATRIX ENERGY TECHNOLOGIES INC.**  
**(In thousands of Canadian dollars except for per share amounts)**

**Notes to the Condensed Consolidated Financial Statements**  
**September 30, 2018 and 2017**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

2) IFRS 15

IFRS 15, "Revenue from Contracts with Customers", is required to be applied for periods beginning on or after January 1, 2018 and supersedes existing standards and interpretations including IAS 18 and IAS 11 Construction Contracts. The standard is required to be adopted either retrospectively or using a modified transition method, with early adoption permitted. As of January 1, 2018, the Corporation has adopted the modified retrospective approach.

The Corporation recognizes revenue when a performance obligation is satisfied by transferring promised goods or services to a customer and the amount recorded is measured at the fair value of the consideration received. The Corporation's standard drilling rig contract includes performance obligations to provide drilling services and rig equipment, which are satisfied over time. Once determined, the transaction price will be allocated to each performance obligation based on stand-alone selling prices. The Corporation recognizes revenue daily, based on agreed upon rates in each contract and on the daily activity of the rig. As such, there will be no unfulfilled performance obligations.

The Corporation's contracts contain both a lease and a service element. IFRS 15 requires revenue from both the service and lease elements related to customer contracts to be presented separately.

The Corporation's revenue streams under IFRS 15 are comprised of the following:

	Three months ended, September 30,		Nine months ended, September 30,	
	2018	2017	2018	2017
Horizontal and directional drilling revenue	1,717	1,933	4,304	4,544
Contract drilling rig services	1,630	-	5,371	-
Contract drilling rig lease revenue	1,438	-	4,632	-
Total revenue	4,785	1,933	14,307	4,544

There is no impact on the adoption of the standard on the Corporation's interim condensed consolidated financial statements.

New and revised IFRS that has been issued but is not yet effective:

IFRS 16, "Leases" replaces the previous guidance on leases and sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract. The new standard is effective for annual periods beginning on or after January 1, 2019, and which supersedes IAS 17, Leases; earlier application is allowed, but not before the application of IFRS 15, Revenue from Contracts with Customers. This new pronouncement introduces a single lessee accounting model by eliminating a lessee's classification of leases as either operating leases or finance leases.

The Corporation has elected to adopt IFRS 16 using the modified retrospective approach by recognizing the cumulative effect of initially applying the new standard on January 1, 2019 using the simplified right-of-use asset measurement method, along with the application of various practical expedients. The Corporation has reviewed its lease agreements and is currently evaluating the impact of the adoption of IFRS 16 on its consolidated financial statements.

**4. BUSINESS COMBINATIONS**

On January 19, 2018, the Corporation acquired all the issued and outstanding shares of D2 Drilling Ltd. ("D2"), a private corporation which owned and operated one heavy telescopic double drilling rig in the Weyburn/Estevan area of southeast Saskatchewan and total working capital of \$523.

Total consideration for D2 was \$3,530, which comprised of \$530 cash and 6,667 common shares at \$0.45 per share being the Corporation's share price on the closing date of the acquisition.



**MATRIX ENERGY TECHNOLOGIES INC.**  
(In thousands of Canadian dollars except for per share amounts)

**Notes to the Condensed Consolidated Financial Statements**  
**September 30, 2018 and 2017**

**4. BUSINESS COMBINATIONS (continued)**

Balance at acquisition date	January 19, 2018
Shares issued	\$3,000
Cash paid	530
Total consideration	3,530
Assets and liabilities acquired	January 19, 2018
Cash	7
Account receivable	550
Prepays	9
Property and equipment	3,000
Accounts payable	(36)
Total assets and liabilities acquired	3,530

The Corporation incurred costs related to the acquisition of \$277 relating to due diligence, external legal fees and other related transaction costs. These costs have been included as transaction costs in the consolidated statement of comprehensive income and loss.

*Red Dog Drilling Inc.*

On May 24, 2018, the Corporation acquired the land based drilling rigs owned by Red Dog Drilling Inc. ("Red Dog") which included two heavy telescopic double drilling rigs, one cantilever triple drilling rig and one cantilever double drilling rig. Total consideration for the assets of Red Dog was \$5,511, which comprised of \$4,992 cash and 1,573 common shares at \$0.33 per share being the Corporation's share price on the closing date of the acquisition. As part of the acquisition the Corporation did not acquire any of Red Dog's debt or working capital.

Balance at acquisition date	May 24, 2018
Shares issued	\$519
Cash paid	4,992
Total consideration	5,511
Total assets acquired	May 24, 2018
	5,511

The Corporation incurred costs related to the acquisition of \$216 relating to due diligence, external legal fees and other related transaction costs. These costs have been included as transaction costs in the consolidated statement of comprehensive income and loss.

**5. EARNINGS PER SHARE**

Basic and diluted earnings per share have been calculated based on the net income divided by the weighted average number of common shares outstanding for the period ended September 30, 2018 and 2017 based on the following data.

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net income (loss)	(905)	(743)	(2,125)	(2,411)
Weighted average common shares	131,577	33,862	130,184	32,750
Effect of stock options	-	-	-	-
Diluted balance, end of period	131,577	33,862	130,184	32,750
Basic income (loss) per common share	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.07)

**MATRIX ENERGY TECHNOLOGIES INC.**  
(In thousands of Canadian dollars except for per share amounts)

**Notes to the Condensed Consolidated Financial Statements**  
**September 30, 2018 and 2017**

**6. INVENTORY**

Inventory is mainly comprised of drilling and other equipment repair parts as well as parts for directional kit builds. For the three and nine month periods ended September 30, 2018, consumed repair parts included in direct operating costs amounted to \$129 and \$302, respectively and \$104 and \$217 in 2017, respectively. In addition, during the nine month period ended September 30, 2018, contract drilling spare parts totalling \$134 were reclassified from inventory to property and equipment.

**7. PROPERTY AND EQUIPMENT**

	Rigs and related equipment	Directional drilling and related equipment	Machinery and other equipment	Office furniture and equipment	Total
<b>Cost</b>					
Balance at January 1, 2017	-	24,851	570	85	25,506
Additions	6,311	287	656	3	7,257
Acquisitions	9,927	-	511	-	10,438
Disposals	-	(1,324)	(32)	-	(1,356)
Balance at December 31, 2017	16,238	23,814	1,705	88	41,845
Additions	9,678	150	13	4	9,845
Acquisitions	8,511	-	-	-	8,511
Disposals	(20)	(502)	(225)	-	(747)
Balance at September 30, 2018	34,407	23,462	1,493	92	59,454
<b>Depreciation</b>					
Balance at January 1, 2017	-	15,444	366	63	15,873
Depreciation for the year	293	2,277	43	25	2,638
Disposals	-	(910)	(22)	-	(932)
Impairment of assets	-	3,630	-	-	3,630
Balance at December 31, 2017	293	20,441	387	88	21,209
Depreciation for the period	1,446	805	119	3	2,373
Disposals	-	(361)	(16)	-	(377)
Balance at September 30, 2018	1,739	20,885	490	91	23,205

**Carrying amounts**

Balance at December 31, 2017	15,945	3,373	1,318	-	20,636
Balance at September 30, 2018	32,668	2,577	1,003	1	36,249

**8. GOODWILL**

	September 30, 2018	December 31, 2017
Balance - beginning of period	461	-
Additions through business acquisition	-	461
Balance - end of period	461	461

Goodwill of \$461 relates to the business acquisition of Stampede Drilling Inc. on November 21, 2017.

**MATRIX ENERGY TECHNOLOGIES INC.**  
**(In thousands of Canadian dollars except for per share amounts)**

**Notes to the Condensed Consolidated Financial Statements**  
**September 30, 2018 and 2017**

**9. 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 does not establish 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 share capital, convertible debentures and working capital which was \$68,665 at September 30, 2018 (December 31, 2017: \$78,927).

**10. SHARE CAPITAL**

*Authorized*

The authorized share capital of the Corporation consists of an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares, issuable in series, none of which are issued or outstanding as of September 30, 2018.

*Authorized and Issued Common Shares*

	Number	Amount (\$)
Balance as at January 1, 2017	32,185	29,789
Issued shares pursuant to private placement	68,193	21,158
Issued shares pursuant to Stampede Drilling Inc. acquisition	22,581	9,258
Transaction costs	-	(1,806)
Issued shares pursuant to the exercise of stock options	120	30
Stock option value of exercised options	-	19
Balance as at January 1, 2018	123,079	58,448
Issued shares pursuant to D2 Drilling Inc. acquisition	6,667	3,000
Issued shares pursuant to Red Dog Drilling Inc. acquisition	1,573	519
Issued shares pursuant to the exercise of stock options	273	46
Stock option value of exercised options	-	36
Balance as at September 30, 2018	131,592	62,049

On January 19, 2018, the Corporation acquired all of the issued and outstanding common shares of D2 Drilling Inc. and as partial consideration issued 6,667 common shares of the Corporation at a deemed price of \$0.45 per share being the Corporation's share price on the closing date of the acquisition.

On May 24, 2018, the Corporation acquired the land based drilling rigs owned by Red Dog and as partial consideration issued 1,573 common shares of the Corporation at a deemed price of \$0.33 per share being the Corporation's share price on the closing date of the acquisition.

*Employee benefit reserve*

Employee benefit reserve is comprised solely of stock based compensation expense and stock option exercises.

*Foreign Currency Translation Reserve*

Foreign Currency Translation Reserve is the cumulative translation account that comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

*Stock Options*

The Corporation has adopted an incentive stock option plan, which provides that the Board of Directors of the Corporation from time to time, at its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and consultants to the Corporation, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares.

**MATRIX ENERGY TECHNOLOGIES INC.**  
(In thousands of Canadian dollars except for per share amounts)

**Notes to the Condensed Consolidated Financial Statements**  
**September 30, 2018 and 2017**

**10. SHARE CAPITAL (continued)**

The options are exercisable for a period of up to five years from the date of grant. Vesting terms are determined at the time of grant by the Board of Directors. The options granted up to June 30, 2017 for directors, officers, employees and consultants have a vesting period of one third a year from the date of grant, another one third two years from the date of grant and the remaining third vesting three years from the date of grant. Once vested, the options can be exercised and have an expiration date a year from the vesting date. The options granted subsequent to December 3, 2017 carry a five year term and are subject to vesting one quarter on each of the first, second, third and fourth anniversaries of the date of the grant or carry a five year term and are subject to vesting as to one quarter on the day of the grant and one quarter on each of the first, second and third anniversaries of the date of the grant.

A summary of the Corporation's outstanding stock options as at September 30, 2018 and December 31, 2017 and the changes for the period ended, is as follows:

Stock Options	Outstanding	Weighted Average Exercise Price
Outstanding at December 31, 2016	2,950	\$ 0.40
Options granted to employees and directors	1,546	\$ 0.32
Options granted to agents	3,111	\$ 0.31
Options exercised	(120)	\$ 0.25
Options expired	(739)	\$ 0.58
Options forfeited	(149)	\$ 0.26
Outstanding at December 31, 2017	6,599	\$ 0.29
Options granted to employees and directors	435	\$ 0.45
Options exercised	(273)	\$ 0.17
Options expired	(328)	\$ 0.47
Options forfeited	(453)	\$ 0.22
Outstanding at September 30, 2018	5,980	\$ 0.30

Range of Exercise Prices	Number	Total Outstanding	
		Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
<u>Employees and directors</u>			
\$0.12 to \$0.18	615	\$ 0.12	2.24
\$0.22 to \$0.27	832	\$ 0.26	2.95
\$0.31 to \$0.69 <sup>(1)</sup>	4,533	\$ 0.33	1.20
	5,980	\$ 0.30	1.55

<sup>(1)</sup> Included in this tranche are 3,111 agent options issued \$0.31

Range of Exercise Prices	Outstanding	Exercisable	
		Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
<u>Employees and directors</u>			
\$0.12 to \$0.18	446	\$ 0.12	2.22
\$0.22 to \$0.27	356	\$ 0.26	1.37
\$0.31 to \$0.69 <sup>(1)</sup>	3,547	\$ 0.32	0.39
	4,349	\$ 0.29	0.66

<sup>(1)</sup> Included in this tranche are 3,111 agent options issued \$0.31

**MATRIX ENERGY TECHNOLOGIES INC.**  
**(In thousands of Canadian dollars except for per share amounts)**

**Notes to the Condensed Consolidated Financial Statements**  
**September 30, 2018 and 2017**

**10. SHARE CAPITAL (continued)**

*Share Based Payments*

For the three and nine month periods ended September 30, 2018, the Corporation recorded share based payment expense of \$52 and \$199, respectively, and \$71 and \$124 in 2017, respectively. The following assumptions were used for the Black-Scholes valuation of stock options:

	2018	2017
Risk-free interest rate range	2.02% - 2.18%	1.07% - 1.65%
Expected Term	5.0 years	5.0 years
Annualized volatility	139.17% - 143.69%	134.44% - 162.74%
Dividend rate	0.00%	0.00%
Forfeiture rate	10.00%	10.00%
Average fair value per option granted	\$0.30	\$0.32

The expected volatility is determined based on weighted average historic prices for the Corporation's common shares.

**11. FINANCIAL INSTRUMENTS**

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

*Credit risk*

The adoption of IFRS 9 Financial Instruments requires an entity to estimate its expected credit loss for all trade accounts receivable even when they are not past due based on the expectation that certain receivables will be uncollectible. Based on the Company's assessment, an increase in the allowance for doubtful accounts was recorded, using the lifetime expected credit loss model. The expected credit loss rates are based on actual credit loss experience since inception for each operating segment. The adjustment to allowance for doubtful accounts on initial application of IFRS 9 is \$94.

The loss allowance provision for trade accounts receivable as at September 30, 2018 reconciles to the opening loss allowance provision as follows:

	2018
At January 1, 2018 – calculated under IAS 39	94
Increase in loan loss allowance per IFRS 9	18
As at September 30, 2018	112

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 as well as monitoring the amount and age of balances outstanding. The Corporation views credit risks on its accounts receivable as normal for the industry.

Substantially all of the Corporation's cash and cash equivalents are held by high credit quality financial institutions.

During the nine months ended September 30, 2018, MATRIX had three customers that comprised of 34%, 17% and 12% of total revenue, compared to four customers that comprised 21%, 12%, 11% and 10% of total revenue for the comparative period in 2017. For the accounts receivable balances outstanding at September 30, 2018, MATRIX had three customers that comprised of 29%, 15% and 12% of the total balance as compared to four customers that comprised 24%, 23%, 16% and 12% of the total balance for the comparative period in 2017.

**MATRIX ENERGY TECHNOLOGIES INC.**  
**(In thousands of Canadian dollars except for per share amounts)**

**Notes to the Condensed Consolidated Financial Statements**  
**September 30, 2018 and 2017**

**11. FINANCIAL INSTRUMENTS (continued)**

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

	September 30, 2018	December 31, 2017
Within 30 days	1,736	3,104
31 to 60 days	875	1,631
61 to 90 days	220	1,017
Over 90 days	417	-
Allowance for doubtful accounts	(112)	-
Accounts receivable	3,136	5,752

*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 2018 working capital requirements. As at September 30, 2018 the Corporation had current assets balance of \$5,730 to settle current liabilities of \$1,775.

*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 is exposed to interest rate fluctuations on its operating loan facility which bears interest at floating market rates. For the nine-month period ended September 30, 2018, if the prime interest rate increased/decreased by 1%, with all other variables held constant, the Corporation's net loss would not have been materially different. The Corporation has not entered into any interest rate swaps or other financial arrangements that mitigate the Corporation's exposure to interest rate fluctuations. The Corporation has invested its excess cash in short-term deposits with a fixed rate of interest at its banking institution and therefore is exposed to further interest rate risk; however, this is not considered to be significant due to the short time to maturity.

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

**c) Fair Value**

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

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 September 30, 2018, the Corporation valued its cash and cash equivalents using Level 1 inputs. The Corporation does not have any Level 2 instruments. The fair value of the convertible debentures liability was recorded based on an estimated fair value interest rate and is considered a Level 3 fair value instrument.

**MATRIX ENERGY TECHNOLOGIES INC.**  
(In thousands of Canadian dollars except for per share amounts)

**Notes to the Condensed Consolidated Financial Statements**  
September 30, 2018 and 2017

**12. OPERATING SEGMENTS**

Management evaluates the Corporation's performance on an operationally segmented basis. The composition of the operational segments reported in the consolidated financial statements are consistent with the internal management reporting provided to key management.

The Corporation has identified the following two reportable operational segments: Directional drilling and land based contract drilling.

	For the three months ended September 30, 2018		
	Directional Drilling	Contract Drilling	Total
Revenue	1,717	3,068	4,785
Net loss	(282)	(623)	(905)
Property and equipment, net	2,790	33,459	36,249
Goodwill	-	461	461

	For the three months ended September 30, 2017		
	Directional Drilling	Contract Drilling	Total
Revenue	1,933	-	1,933
Net loss	(743)	-	(743)
Property and equipment, net	7,834	-	7,834
Goodwill	-	-	-

	For the nine months ended September 30, 2018		
	Directional Drilling	Contract Drilling	Total
Revenue	4,304	10,003	14,307
Net Income (loss)	(1,616)	(509)	(2,125)

	For the nine months ended September, 2017		
	Directional Drilling	Contract Drilling	Total
Revenue	4,544	-	4,544
Net loss	(2,411)	-	(2,411)

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 land based contract drilling segment.

**13. COMMITMENTS**

The following table reflects the Corporations commitments as of September 30, 2018:

(000's CAD \$)	2018	2019	2020	2021	2022
Operating Leases	98	369	291	198	99
Trade and other payables	1,775	-	-	-	-
Total	1,873	369	291	198	99

As of September 30, 2018, the Corporation has committed \$2,348 related to rig upgrades.

**MATRIX ENERGY TECHNOLOGIES INC.**  
**(In thousands of Canadian dollars except for per share amounts)**

**Notes to the Condensed Consolidated Financial Statements**  
**September 30, 2018 and 2017**

**14. LOANS & BORROWINGS**

On October 27, 2017, the Corporation entered into an amended and restated commitment letter with its lender increasing its revolving operating loan facility by \$3,000 to \$5,000 and added a short term non-revolving acquisition loan facility in the amount of \$2,500. The operating 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.

In Q4 2017, the Corporation paid off the entire \$2,500 short term non-revolving acquisition loan facility. As of September 30, 2018, the Corporation had drawn \$655 on the operating loan facility (December 2017 - \$nil).

At September 30, 2018, the following financial covenants were in place:

1. **Debt Service Coverage:** for the fiscal quarter ended December 31, 2018 and annually thereafter, the Borrower shall not permit the Debt Service Coverage to be less than 1.25:1.
2. **Current Ratio:** for the fiscal quarter ended March 31, 2018 and to be tested quarterly thereafter, the Borrower shall not permit the Current Ratio to be less than 1.25:1.

The Current ratio as at September 30, 2018 was 3.23:1. Had the debt service coverage covenant been in place, the Corporation would have been in compliance with both covenants at September 30, 2018.

**15. CONVERTIBLE DEBENTURES**

	Number of convertible debentures	Liability component (\$,000)	Equity component (\$,000)
Balance at December 31, 2016	-	-	-
Issuance of convertible debentures	2,612	2,341	271
Issue costs	-	(47)	(6)
Accretion of discount	-	3	-
Balance at December 31, 2017	2,612	2,297	265
Accretion of discount	-	98	-
Balance at September 30, 2018	2,612	2,395	265

For the year ended December 31, 2017, the Corporation closed two private placement tranches of unsecured, subordinated convertible debentures of the Corporation. An aggregate principal amount of \$2,305 was issued under the first tranche on October 18, 2017 and \$307 of Debentures was issued under the final tranche on October 27, 2017, bringing the total principal amount of Debentures issued under the Offering to \$2,612. The Corporation incurred \$53 of transaction costs related to the convertible debenture raise for total net proceeds of \$2,559. Certain Executives, Board members and employees of the Corporation participated in the Offering and purchased Debentures having an aggregate Principal Amount of \$950, or approximately 36.4% of the Offering.

The Debentures mature on October 31, 2020 and bear interest at a rate of 10% per annum to be paid semi-annually, in arrears on December 31 and June 30 of each year. They are convertible into common shares in the capital of the Corporation at a price of \$0.49 per Common Share based on a conversion premium of approximately 25% to the last trade on the TSX Venture Exchange ("TSXV") on October 6, 2017.

The principal amount of the Debentures are convertible at the option of the holder at any time prior to the close of business on the earlier of (i) the business day immediately preceding the Maturity Date or, (ii) if called for redemption, on the business day immediately preceding the date fixed for redemption, or (iii) if called for repurchase pursuant to a transaction resulting in any person or persons acquiring voting control or direction over at least 50% of the aggregate voting rights attached to the Common Shares then outstanding, on the business day immediately preceding the payment date.



**MATRRIX ENERGY TECHNOLOGIES INC.**  
**(In thousands of Canadian dollars except for per share amounts)**

---

**Notes to the Condensed Consolidated Financial Statements**  
**September 30, 2018 and 2017**

---

**15. CONVERTIBLE DEBENTURES (continued)**

The liability component of the Debentures was recognized initially at the fair value of a similar liability that does not have an equity conversion option, which was calculated based on a market interest rate of 14.5%. The difference between the principal amount of the Debentures and the fair value of the liability component was recognized in shareholders' equity, net of deferred income taxes.

The Debentures may not be redeemed by the Corporation prior to October 31, 2018. On and after October 31, 2018 and prior to October 31, 2019, the Debentures may be redeemed by the Corporation, in whole or in part from time to time, on not more than 60 days and not less than 40 days prior notice at a redemption price equal to their Principal Amount plus accrued and unpaid interest, if any, up to but excluding the date set for redemption, provided that the weighted average trading price of the Common Shares on the TSXV, for the 30 consecutive trading days ending five trading days prior to the date on which notice of redemption is provided is at least 125% of the conversion price. On and after October 31, 2019 and prior to the Maturity Date, the Debentures may be redeemed by the Corporation, from time to time, on not more than 60 days and not less than 40 days prior notice of redemption at a redemption price equal to the Principal Amount plus accrued and unpaid interest, if any, up to but excluding the date set for redemption.