

Condensed Consolidated Interim Financial Statements

Three Month Period Ended
December 31, 2014

(expressed in Canadian Dollars)



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 interim financial statements of the company have been prepared by, and are the responsibility of, the company's management.

The company's independent auditor has not performed a review of these 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.

Notice to Reader

BLUMETRIC ENVIRONMENTAL INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(in Canadian dollars) (unaudited)

		December 31 2014	September 30 2014
	Notes	\$	\$
ASSETS			
Current assets			
Accounts receivable	3	6,328,360	5,038,457
Unbilled revenue		1,455,809	2,292,502
Inventory		1,549	1,549
Prepaid expenses		150,993	102,106
Investment held for sale		20,596	33,626
		7,957,307	7,468,240
Non-current assets			
Property, plant and equipment		2,251,727	2,355,939
Intangible assets		896,120	1,011,444
Investment accounted for using the equity method	4	367,175	378,104
Long term investment		11,085	11,085
Goodwill		1,592,095	1,592,095
Total assets		13,075,509	12,816,907
LIABILITIES			
Current liabilities			
Bank indebtedness		232,585	180,626
Credit facilities	5	480,000	780,000
Trade and other payables	6	4,811,891	5,358,891
Deferred revenue		2,295,561	1,346,836
Note, advances and loans payable		522,794	517,737
Obligations under finance leases		3,655	3,698
Current portion of long-term debt	7	1,575,129	1,655,244
		9,921,615	9,843,032
Non-current liabilities			
Obligations under finance leases		3,882	4,830
Long-term debt	7	1,809,629	1,824,125
Convertible debenture		1,258,852	1,231,949
Due to shareholders		269,531	269,531
Contingent consideration		156,282	156,282
Total liabilities		13,419,791	13,329,749
SHAREHOLDERS' EQUITY (DEFICIT)			
Share capital		4,629,424	4,629,424
Contributed surplus and other equity	8	443,561	388,771
Deficit		(5,417,267)	(5,531,037)
Total equity (deficit)		(344,282)	(512,842)
Total liabilities and shareholders' equity (deficit)		13,075,509	12,816,907

The accompanying notes are an integral part of these condensed consolidated interim financial statements

APPROVED BY THE BOARD

Roger Woeller, Director

Jordan B. Grant, Director

BLUMETRIC ENVIRONMENTAL INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)

For the three months ended December 31, 2014 and December 31, 2013

(in Canadian dollars) (unaudited)

	Notes	Common shares #	Share capital \$	Contributed surplus and other equity \$	Retained earnings (deficit) \$	Total equity (deficit) \$
Balance at October 1, 2014		25,191,656	4,629,424	388,771	(5,531,037)	(512,842)
Share based compensation	8	-	-	54,790	-	54,790
Net income and comprehensive income for the period		-	-	-	113,770	113,770
Balance at December 31, 2014		25,191,656	4,629,424	443,561	(5,417,267)	(344,282)

	Notes	Common shares #	Share capital \$	Contributed surplus and other equity \$	Retained earnings \$	Total equity \$
Balance at October 1, 2013		25,191,656	4,629,424	186,606	1,407,700	6,223,730
Share based compensation	8	-	-	113,498	-	113,498
Net income and comprehensive income for the period		-	-	-	17,979	17,979
Balance at December 31, 2013		25,191,656	4,629,424	300,104	1,425,679	6,355,207

The accompanying notes are an integral part of these condensed consolidated interim financial statements

BLUMETRIC ENVIRONMENTAL INC.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME**

For the three months ended December 31, 2014 and 2013

(in Canadian dollars, except the number of shares) (unaudited)

	Notes	For the three months ended December 31	
		2014 \$	2013 \$
Revenue	12	7,779,364	7,624,771
Cost of goods sold	9	6,054,733	5,995,235
Gross profit		1,724,631	1,629,536
Operating expenses:			
Selling, general and administrative expenses	9	1,435,295	1,480,591
Operating income		289,336	148,945
Share of net loss of an associated company	4	(10,929)	(12,424)
Finance costs	9	(164,637)	(118,542)
Net income and comprehensive income for the period		113,770	17,979
Net income per share:			
Basic		\$0.00	\$0.00
Diluted	11	\$0.00	\$0.00
Weighted average number of shares outstanding:			
Basic		25,191,656	25,191,656
Diluted	11	25,191,656	25,191,656

The accompanying notes are an integral part of these condensed consolidated interim financial statements

BLUMETRIC ENVIRONMENTAL INC.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**

For the three months ended December 31, 2014 and December 31, 2013

(in Canadian dollars) (unaudited)

	Notes	For the three months ended	
		December 31	
		2014	2013
		\$	\$
Cash flows from operating activities			
Net income for the period		113,770	17,979
Non-cash items:			
Depreciation of property, plant and equipment		137,789	134,908
Amortization of intangible assets		115,324	85,665
Loss on disposal of property, plant and equipment		-	10,861
Interest accretion on convertible debenture		26,903	24,787
Share of net loss of an associated company	4	10,929	12,424
Unrealized loss (gain) on investment held for sale		13,030	-
Share-based compensation	8	54,790	113,498
Changes in working capital items	10	(100,372)	394,595
Net cash generated by operating activities		372,163	794,717
Cash flows from investing activities			
Acquisition of property, plant and equipment		(33,577)	(3,858)
Acquisition of intangible assets		-	(2,275)
Net cash used in investing activities		(33,577)	(6,133)
Cash flows from financing activities			
Increase in note, advances and loans payable		5,057	-
Repayment of long term debt		(94,611)	(114,037)
Repayment of finance leases		(991)	(11,713)
Decrease in use of credit facilities		(300,000)	(530,000)
Net cash used in financing activities		(390,545)	(655,750)
Net change in cash and cash equivalents		(51,959)	132,834
Bank indebtedness – Beginning of period		(180,626)	(1,258,471)
Bank indebtedness – End of period		(232,585)	(1,125,637)
Supplementary Information			
Interest paid - included in operating activities		116,019	21,255
Taxes paid - included in operating activities		-	-

The accompanying notes are an integral part of these condensed consolidated interim financial statements

1. Nature of Operations

BluMetric is an integrated product and service organization providing sustainable solutions to complex environmental issues in Canada and abroad. The Company serves clients in many industrial sectors, and at all levels of government, both domestically and internationally.

BluMetric focuses on two main areas:

- professional consulting services on environmental earth sciences and engineering, contaminated site remediation, water resource management, industrial hygiene, occupational health and safety, and renewable energy; and
- water and wastewater design-build and pre-engineered product solutions.

The head office of the Company is located at 3108 Carp Road, Ottawa, Ontario, Canada K0A 1L0. The Company's common shares are listed on the Toronto Venture Exchange ("TSX.V") in Canada.

2. Basis of Presentation and Summary of Accounting Policies

a. Going concern

These condensed consolidated interim financial statements have been prepared on the basis of the going concern assumption, meaning the Company will be able to realize its assets and discharge its liabilities in the normal course of operations. However, certain adverse conditions and events cast significant doubt upon the validity of this assumption.

BluMetric has incurred significant operating losses over its past two fiscal years and remains in violation of certain of its debt covenants which triggers a cross default clause and results in certain long-term debt balances being reclassified to current debt. As a result of this reclassification, the Company's working capital at December 31, 2014 is in a deficit position of \$2.0 million.

The Company is actively pursuing a new financing arrangement that it anticipates will provide greater cash availability than its current credit facility. The Company's ability to continue operating on a sustainable basis is dependent upon securing this financing, generating sufficient cash from its operations to satisfy its liquidity requirements, and continuing to satisfy current creditors. The Company continues to report significant stable revenues with improving margins and is driving profitability by continuing to control costs and by ongoing adjustments to its operations. However, there can be no assurance it will be successful in these efforts.

If the going concern assumption was not appropriate for these financial statements, then adjustments would likely be necessary in the carrying amounts of assets and liabilities, revenues and expenses, the accumulated deficit and the classifications used in the condensed consolidated interim statement of financial position. These adjustments could be material.

b. Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. These condensed consolidated interim financial statements follow the same accounting policies as the Company’s most recent annual financial statements for the year ended September 30, 2014, which can be found, along with other information, at www.sedar.com.

These condensed consolidated interim financial statements do not contain all of the information and disclosures required for annual financial statements, and should be read in conjunction with the Company’s annual audited consolidated financial statements for the year ended September 30, 2014.

c. Authorization of Financial Statements

The condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors on March 2, 2015.

d. Presentation and Functional Currency

The Company’s presentation and functional currency is the Canadian dollar, which is also the functional currency of the subsidiary.

e. Basis of Measurement

The condensed consolidated interim financial statements have been prepared on the historical cost basis.

The accounting policies set out in the Company’s most recent annual financial statements have been applied consistently to all periods presented in these condensed consolidated interim financial statements. As such, it should be read in conjunction with the consolidated annual financial statements and related note disclosures for the year ended September 30, 2014.

3. Accounts Receivable

	December 31, 2014	September 30, 2014
	\$	\$
Trade receivables	7,220,099	5,521,094
Other receivables	348,136	428,922
Allowance for doubtful accounts	(1,239,875)	(911,559)
	6,328,360	5,038,457

All of the Company's trade and other receivables have been reviewed for indications of impairment. An allowance for doubtful accounts has been established for any trade receivable found to be impaired.

4. Investment Accounted for using the Equity Method

The Company has an investment in Wasdell Falls Power Corporation which it accounts for under the equity method. During the three months ended December 31, 2014, the Company recognized \$10,929 (December 31, 2013 - \$12,424). Wasdell Falls Power Corporation has not yet achieved the commencement of operations. Accordingly, they have not generated any revenues to date.

5. Credit Facilities

As at December 31, 2014, short-term bank credit facilities consisted of an operating line of credit in the amount of \$2,000,000 (September 30, 2014 - \$2,000,000) and a separate facility specifically for issuing client project-related letters of credit in the amount of \$400,000 (September 30, 2014 - \$500,000).

At December 31, 2014, the Company had drawn \$480,000 (September 30, 2014 - \$780,000) on its operating line of credit, which carries a floating rate of interest of prime plus 2.25%, is payable on demand and is secured by a general security agreement over the Company's assets.

At December 31, 2014, the Company had an outstanding letter of guarantee of \$38,000 which was carved out of the operating line of credit. This letter of guarantee matures on April 30, 2015.

The Company has certain covenants in accordance with its banking agreement which include maintaining a debt to service ratio in excess of 1.2:1 and maintaining, on a quarterly basis, a minimum tangible net worth of \$2.4 million. As at December 31, 2014, the Company was in default of the tangible net worth covenant and the debt to service ratio covenant (see Note 2(a) – Going Concern).

6. Trade and Other Payables

	December 31, 2014	September 30, 2014
	\$	\$
Trade payables	2,872,126	3,231,681
Salaries and benefits payable	737,258	618,838
Other accrued liabilities and payables	1,202,507	1,508,372
	4,811,891	5,358,891

Provisions in the amount of \$18,373 (September 30, 2014 - \$18,373) are included in other accrued liabilities and payables and are entirely with respect to product warranty provisions.

As at December 31, 2014, other accrued liabilities and payables includes amounts owing to key management personnel of \$33,631 (September 30, 2014 - \$27,164).

7. Long-Term-Debt

At December 31, 2014, the Company is in default of one of its debt covenants (see Note 5), which has triggered a cross default on its bank loans. Consequently, the long term debt portion attributable to these loans has been reclassified to current liabilities and is now payable on demand.

8. Shareholders' Equity (Deficit)

Share Options

Activity in the share option plan is summarized as follows:

	For the three months ended			
	December 31, 2014		December 31, 2013	
	Number of options #	Weighted average exercise price \$	Number of options #	Weighted average exercise price \$
Outstanding, beginning of period	2,081,775	1.00	455,667	1.00
Granted	-	0.50	1,724,400	0.50
Exercised	-	-	-	-
Forfeited	(44,367)	0.53	(108,767)	0.55
Outstanding, end of period	2,037,408	0.61	2,071,300	0.67
Exercisable, end of period	1,372,835	0.65	718,090	0.69

Share-Based Compensation

During the three months ended December 31, 2014, the Company recognized \$54,790 (December 31, 2013 - \$113,498) in compensation expense related to the vesting of previously granted stock options.

Warrants

On June 27, 2013 BluMetric issued 131,875 broker compensation warrants in connection with the private placement of 1,430,000 unsecured convertible debenture units. Each warrant is exercisable into one common share of the Company, at a price of \$0.60 per share, until June 27, 2015. The fair value of these warrants was estimated on the date of grant using the Black Scholes option pricing model with the following assumptions: share price on date of grant - \$0.40; dividend yield – 0%; volatility of 116% based on the historical daily volatility of the Company’s common shares between October 1, 2011 and September 30, 2013; risk free interest rate – 2%; and an expected life of 2 years. The resulting fair value of the warrants was estimated as \$26,375. The value of these warrants has been reflected as a reduction in the proceeds from the issuance of both the debt and equity components of the debenture.

There has been no activity related to these warrants since their issuance and they remain unexercised.

9. Information Included in the Condensed Consolidated Interim Statements of Comprehensive Income

	For the three months ended December 31	
	2014	2013
	\$	\$
Employee Benefit Expenses		
Salaries and short term benefits	2,808,063	3,329,683
Share based compensation cost	54,790	113,498
Pensions - defined contribution plans	82,913	91,304
Employee group benefit expense	185,626	155,677
	3,131,392	3,690,162
Finance Costs		
Interest on convertible debentures	59,078	46,278
Interest on debt restructuring	20,079	12,067
Interest on bank loans	11,056	25,088
Other interest and financial expense	74,470	35,815
Interest income	(46)	(706)
	164,637	118,542
Other elements of expenses		
Foreign exchange	(41,458)	(4,574)

10. Changes in Working Capital Balances

	For the three months ended December 31	
	2014	2013
	\$	\$
Accounts receivable	(1,289,903)	1,031,303
Unbilled revenue	836,693	853,574
Prepaid expenses	(48,887)	(65,029)
Investment tax credits	-	42,240
Trade and other payables	(547,000)	(1,539,866)
Deferred revenue	948,725	72,373
	<u>(100,372)</u>	<u>394,595</u>

11. Earnings per Share

For the three months ended December 31, 2014 and December 31, 2013, outstanding options, warrants and convertible debentures were not included in the computation of diluted loss per share because to have done so would have been anti-dilutive.

12. Segmented Disclosure

Revenue

The Company currently operates under two reportable segments as follows:

	For the three months ended December 31	
	2014	2013
	\$	\$
Professional Services	5,734,325	5,013,852
Water Systems	2,045,039	2,610,919
	<u>7,779,364</u>	<u>7,624,771</u>

Geographical Segmentation

The Company operates in three principal geographical areas, Canada (Country of domicile), the United States and internationally, which represents wide distribution.

BLUMETRIC ENVIRONMENTAL INC.
 NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
 December 31, 2014
 (in Canadian Dollars) (unaudited)

Sales reported by client location based on origin of purchase (i.e. domicile of contracting party) are as follows.

	For the three months ended December 31	
	2014	2013
	\$	\$
Canada	6,822,915	6,693,005
International	750,407	776,473
United States	206,042	155,293
	7,779,364	7,624,771

Of total revenue for the three months ended December 31, 2014, approximately 15% was derived from one client in Professional Service (three months ended December 31, 2013 - 12%).

The Company does not currently, or in the ordinary course of business, hold non-current assets outside of its domicile (Canada).

The Company reviews the following current assets and current liabilities at a segment level:

	December 31, 2014		September 30, 2014	
	\$		\$	
	Professional Services	Water Systems	Professional Services	Water Systems
Trade accounts receivable	4,724,966	1,255,258	3,845,199	764,336
Unbilled revenue	1,059,012	396,797	1,956,919	335,583
Deferred revenue	576,599	1,718,962	599,460	747,376

13. Related Party Transactions

All related party transactions are reflected under terms and conditions reflecting prevailing market conditions at the transaction date and are recorded at the amounts agreed upon by the parties.

Compensation of Key Management Personnel

The remuneration of key management personnel during the period was as follows:

	For the three months ended December 31	
	2014	2013
	\$	\$
Salaries, short-term benefits and share based compensation	173,814	185,474

14. Subsequent Events

On February 17, 2015, the Company completed the sale and lease back of its Kitchener office building for net proceeds of approximately \$445,000. Approximately \$223,000 of this amount was used to reduce existing bank loans. The term of the lease is 5 years, with an option to renew.

15. Comparative Figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for December 31, 2014.