

Condensed Consolidated Interim Financial Statements

Three and nine month periods
ended June 30, 2015 and 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)

		June 30 2015	September 30 2014
	Notes	\$	\$
ASSETS			
Current assets			
Cash		122,359	-
Short term investments	5	388,593	
Accounts receivable	3	3,988,207	5,038,457
Unbilled revenue		1,942,033	2,292,502
Inventory		-	1,549
Prepaid expenses		863,900	102,106
Investment held for sale		5,697	33,626
		7,310,789	7,468,240
Non-current assets			
Property, plant and equipment		1,565,127	2,355,939
Intangible assets		708,943	1,011,444
Investment accounted for using the equity method	4	334,930	378,104
Long term investment		11,085	11,085
Goodwill		1,592,095	1,592,095
Total assets		11,522,969	12,816,907
LIABILITIES			
Current liabilities			
Bank indebtedness		-	180,626
Credit facilities	5	1,000,000	780,000
Trade and other payables	6	4,954,400	5,358,891
Deferred revenue		252,990	1,346,836
Note, advances and loans payable		522,004	517,737
Obligations under finance leases		3,960	3,698
Current portion of long-term debt	7	1,028,095	1,655,244
		7,761,449	9,843,032
Non-current liabilities			
Obligations under finance leases		1,596	4,830
Long-term debt	7	1,732,753	1,824,125
Convertible debenture		1,312,658	1,231,949
Due to shareholders		269,531	269,531
Contingent consideration		156,282	156,282
Total liabilities		11,234,270	13,329,749
SHAREHOLDERS' EQUITY (DEFICIT)			
Share capital		4,629,424	4,629,424
Contributed surplus and other equity	8	508,400	388,771
Deficit		(4,849,125)	(5,531,037)
Total equity (deficit)		288,699	(512,842)
Total liabilities and shareholders' equity (deficit)		11,522,969	12,816,907

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

APPROVED BY THE BOARD

Roger Woeller, Director

Murray Malley, Director

BLUMETRIC ENVIRONMENTAL INC.

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

For the nine months ended June 30, 2015 and 2015

(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	-	-	119,629	-	119,629
Net income and comprehensive income for the period		-	-	-	681,912	681,912
Balance at June 30, 2015		25,191,656	4,629,424	508,400	(4,849,125)	288,699

	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	-	-	144,702	-	144,702
Net income and comprehensive income for the period		-	-	-	(1,257,964)	(1,257,964)
Balance at June 30, 2014		25,191,656	4,629,424	331,308	149,736	5,110,468

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

BLUMETRIC ENVIRONMENTAL INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the three and nine months ended June 30, 2015 and 2014

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

	Notes	For the three months ended June 30		For the nine months ended June 30	
		2015	2014	2015	2014
		\$	\$	\$	\$
Revenue	12	8,675,022	6,497,910	24,235,823	20,741,109
Cost of goods sold	9	6,663,523	5,222,106	18,915,653	16,892,709
Gross profit		2,011,499	1,275,804	5,320,170	3,848,400
Operating expenses:					
Selling, general and administrative expenses	9	1,510,330	1,433,188	4,333,500	4,695,114
Loss (gain) on disposal of property plant and equipment		-	-	(247,481)	8,886
Total operating expenses		1,510,330	1,433,188	4,086,019	4,704,000
Operating income (loss)		501,169	(157,384)	1,234,151	(855,600)
Share of net loss of an associated company	4	(18,888)	(7,169)	(43,174)	(19,602)
Finance costs	9	(160,213)	(126,844)	(509,065)	(382,762)
Net income (loss) and comprehensive income (loss) for the period		322,068	(291,397)	681,912	(1,257,964)
Net income per share:					
Basic		\$0.01	(\$ 0.01)	\$0.03	(\$ 0.05)
Diluted	11	\$0.01	(\$ 0.01)	\$0.03	(\$ 0.05)
Weighted average number of shares outstanding:					
Basic		25,191,656	25,191,565	25,191,656	25,191,656
Diluted	11	25,191,656	25,191,565	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 and nine months ended June 30, 2015 and 2014
(in Canadian dollars) (unaudited)

	Notes	For the three months ended		For the nine months ended	
		June 30		June 30	
		2015	2014	2015	2014
		\$	\$	\$	\$
Cash flows from operating activities					
Net income (loss) for the period		322,068	(291,397)	681,912	(1,257,964)
Non-cash items:					
Depreciation of property, plant and equipment		94,134	132,905	343,838	392,105
Amortization of intangible assets		85,064	85,912	302,502	256,656
Loss (gain) on disposal of property, plant and equipment		-	-	(247,481)	8,886
Interest accretion on convertible debenture		26,903	24,787	80,709	74,362
Share of net loss of an associated company	4	18,888	7,169	43,174	19,602
Unrealized loss (gain) on investment held for sale		-	-	13,030	-
Share-based compensation	8	14,642	24,194	119,629	144,702
Changes in working capital items	10	63,564	378,711	(857,863)	1,958,022
Net cash generated by operating activities		625,263	362,281	479,450	1,596,371
Cash flows from investing activities					
Acquisition of property, plant and equipment		(15,168)	(4,777)	(48,745)	(810,135)
Acquisition of intangible assets		-	-	-	(9,650)
Proceed from investments held for sale		14,900	-	14,900	-
Proceeds on disposal of property plant and equipment		-	-	743,199	4,000
Change in short term investments	5	(388,593)	-	(388,593)	-
Net cash used in investing activities		(388,861)	(4,777)	320,761	(815,785)
Cash flows from financing activities					
Increase in note, advances and loans payable		4,813	9,630	4,267	174,630
Issuance of long term debt		-	-	-	700,000
Repayment of long term debt		(37,321)	(126,203)	(718,521)	(364,427)
Repayment of finance leases		(991)	(845)	(2,972)	(13,403)
Increase (decrease) in use of credit facilities		310,000	(400,000)	220,000	(180,000)
Net cash used in financing activities		276,501	(517,418)	(497,226)	316,800
Net change in cash and cash equivalents		512,903	(159,914)	302,985	1,097,386
Bank indebtedness – Beginning of period		(390,544)	(1,171)	(180,626)	(1,258,471)
Cash (bank indebtedness) – End of period		122,359	(161,085)	122,359	(161,085)
Supplementary Information					
Interest paid - included in operating activities		109,841	92,192	279,059	160,506
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 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 June 30, 2015 is in a deficit position of \$450,660.

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 August 28, 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

	June 30, 2015	September 30, 2014
	\$	\$
Trade receivables	4,331,567	5,521,094
Other receivables	336,211	428,922
Allowance for doubtful accounts	(679,571)	(911,559)
	3,988,207	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 nine months ended June 30, 2015, the Company recognized losses of \$43,174 (June 30, 2014 - \$19,602). 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 June, 2015, 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).

At June 30, 2015, the Company had drawn \$1,000,000 (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 June 30, 2015, the Company had two outstanding letters of guarantee of US \$306,800 which were carved out of the operating line of credit. These letters expire on December 31, 2015. As a condition of the Company's bank, the Company invested in term deposits in the amount of US \$306,800 to secure these letters.

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 June 30, 2015, the Company was in default of its covenants (see Note 2(a) – Going Concern).

6. Trade and Other Payables

	June 30, 2015	September 30, 2014
	\$	\$
Trade payables	2,712,862	3,231,681
Salaries and benefits payable	585,072	618,838
Other accrued liabilities and payables	1,656,466	1,508,372
	<u>4,954,400</u>	<u>5,358,891</u>

Provisions in the amount of \$30,018 (September 30, 2014 - \$18,373) are included in other accrued liabilities and payables and are entirely with respect to product warranty provisions.

As at June 30, 2015, other accrued liabilities and payables includes amounts owing to key management personnel of \$nil (September 30, 2014 - \$27,164).

7. Long-Term-Debt

	<u>June 30, 2015</u>	<u>Sept 30, 2014</u>
	<u>\$</u>	<u>\$</u>
Mortgage, bearing interest at 7.99%, repayable in monthly principal instalments of \$8,083 plus interest, due July 16, 2016, secured by a collateral mortgage on land and building with a carrying value of \$379,515.	1,008,237	989,809
Mortgage, bearing interest at BDC Floating Base Rate (5.0% as at March 31, 2015) plus 2.0%, repayable in monthly principal instalments of \$3,900 plus interest, due June 15, 2029, secured by a collateral mortgage on land and building with a carrying value of \$784,105.	655,200	690,300
Bank loan, bearing interest at prime plus 2.5%. Repaid in full on February 17, 2015.	-	311,289
Bank loan, bearing interest at prime plus 2.5%, repayable in monthly principal instalments of \$1,611 plus interest, due March 2023, secured by a charge on land and building with a carrying value of \$230,643.	149,130	164,333
Bank loan, bearing interest at prime plus 2.5%. Repaid in full on February 17, 2015.	-	9,975
Bank loan, bearing interest at prime plus 2.5%. Repaid in full on February 17, 2015.	-	36,027
Bank loan, bearing interest at prime plus 2.5%. Repaid in full on February 17, 2015.	-	24,681
Bank loan, bearing interest at prime plus 2.5%, repayable in monthly principal instalments of \$2,178 plus interest, due November 2016, secured by a general security agreement.	32,192	56,638
Bank loan, bearing interest at prime plus 2.5%, repayable in monthly principal instalments of \$1,992 plus interest, due July 2017, secured by a general security agreement.	49,812	67,742
Bank loan, bearing interest at prime plus 2.5%. Repaid in full on February 17, 2015.	-	221,875
Bank loan, bearing interest at prime plus 2.5%, repayable in monthly principal instalments of \$2,693 plus interest, due May 2018, secured by a general security agreement.	94,267	118,507
Ford Credit loan, bearing interest at prime, payable in monthly instalments of \$3,190, due May 2016 and secured by a general security agreement.	21,590	47,004
Restructured trade debt ⁽¹⁾	750,420	741,189
Total	2,760,848	3,479,369
Current portion of long-term debt	1,028,095	1,655,244
Long-term portion of long-term debt	1,732,753	1,824,125

- (1) On November 15, 2012, the Company reached agreement with a number of creditors with respect to repayment terms for outstanding amounts payable, in the aggregate amount of \$958,285. Of this amount, \$450,452 is owed to related parties. The agreement requires the Company to repay this amount on a monthly basis, with blended payments of \$22,947 principal and interest at 7% per annum such that repayment in full will be effected in four years. A gain on restructuring was recognized in the thirteen month period ended September 30, 2013 of \$133,754. Effective March 1, 2013, payments were suspended and the outstanding balances have been postponed in favour of the Company's bank.

At June 30, 2015, the Company is in default 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 nine months ended			
	June 30, 2015		June 30, 2014	
	Number of options #	Weighted average exercise price \$	Number of options #	Weighted average exercise price \$
Outstanding, beginning of period	2,081,775	0.59	455,667	0.61
Granted	-	-	1,830,800	0.50
Exercised	-	-	-	-
Forfeited	(70,318)	0.52	(204,692)	0.50
Outstanding, end of period	2,011,457	0.61	2,081,775	0.60
Exercisable, end of period	1,429,852	0.65	776,423	0.68

Share-Based Compensation

During the six months ended June, 2015, the Company recognized \$119,629 (June 30, 2014 - \$144,702) in compensation expense related to the vesting of previously granted stock options.

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

	For the three months ended		For the nine months ended	
	June 30		June 30	
	2015	2014	2015	2014
	\$	\$	\$	\$
Employee Benefit Expenses				
Salaries and short term benefits	2,915,797	3,172,740	8,379,725	10,011,351
Share based compensation cost	14,642	24,194	119,629	144,702
Pensions - defined contribution plans	78,522	83,951	248,501	265,928
Employee group benefit expense	121,499	149,857	439,568	453,557
	3,130,460	3,430,742	9,187,423	10,875,538
Finance Costs				
Interest on convertible debentures	63,228	66,576	181,384	169,816
Interest on debt restructuring	14,560	10,452	61,120	32,093
Interest on bank loans	6,213	21,616	27,507	63,937
Other interest and financial expense	76,212	28,200	239,441	117,641
Interest income	-	-	(387)	(725)
	160,213	126,844	509,065	382,762
Other elements of expenses				
Foreign exchange	(47,791)	17,461	(60,208)	(44,377)

10. Changes in Working Capital Balances

	For the three months ended		For the nine months ended	
	June 30		June 30	
	2015	2014	2015	2014
	\$	\$	\$	\$
Accounts receivable	1,540,095	1,103,237	1,050,250	2,596,557
Inventory	720	305	1,549	12,351
Unbilled revenue	(1,323,705)	(453,827)	350,469	139,339
Prepaid expenses	(217,360)	(15,009)	(761,794)	(35,410)
Investment tax credits	-	-	-	42,240
Trade and other payables	916,996	(246,032)	(404,491)	(817,041)
Deferred revenue	(853,182)	(9,963)	(1,093,846)	19,986
	63,564	378,711	(857,863)	1,958,022

11. Earnings per Share

For the three and nine months ended June 30, 2015 and June 30, 2014, 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 June 30		For the nine months ended June 30	
	2015	2014	2015	2014
	\$	\$	\$	\$
Professional Services	4,506,892	5,104,685	14,042,949	14,733,926
Water Systems	4,168,130	1,393,225	10,192,874	6,007,183
	8,675,022	6,497,910	24,235,823	20,741,109

Geographical Segmentation

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

Sales reported by client location based on origin of purchase (i.e. domicile of contracting party, not final destination of equipment) are as follows.

	For the three months ended June 30		For the nine months ended June 30	
	2015	2014	2015	2014
	\$	\$	\$	\$
Canada	7,139,275	6,003,660	21,465,710	18,613,544
International	1,257,064	387,819	2,128,250	1,582,154
United States	278,683	106,431	641,863	545,411
	8,675,022	6,497,910	24,235,823	20,741,109

Of total revenue for the three months ended June 30, 2015, approximately 31% was derived from three clients (three months ended June 30, 2014 - 18% from one client).

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:

	June 30, 2015		September 30, 2014	
	\$		\$	
	Professional Services	Water Systems	Professional Services	Water Systems
Trade accounts receivable	2,903,151	748,845	3,845,199	764,336
Unbilled revenue	994,008	948,025	1,956,919	335,583
Deferred revenue	81,099	171,891	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 nine months ended June 30	
	2015	2014
	\$	\$
Salaries, short-term benefits and share based compensation	539,263	520,482

14. Comparative Figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for June 30, 2015.