

Condensed Consolidated Interim Financial Statements

Three and six month period ended
March 31, 2016 and 2015

(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)

		March 31 2016	September 30 2015
	Notes	\$	\$
ASSETS			
Current assets			
Short term investments	6	498,741	409,425
Accounts receivable	3	6,191,164	7,226,548
Unbilled revenue		2,734,338	2,851,077
Prepaid expenses		473,143	231,579
Investment held for sale		12,680	9,372
Investment accounted for using the equity method	4	251,282	-
		10,161,348	10,728,001
Non-current assets			
Property, plant and equipment	5	1,210,969	1,535,622
Intangible assets		489,363	649,882
Investment accounted for using the equity method	4	-	226,276
Long term investment		11,085	11,085
Goodwill		1,592,095	1,592,095
Total assets		13,464,860	14,742,961
LIABILITIES			
Current liabilities			
Bank indebtedness		274,924	22,533
Credit facilities	6	930,000	1,470,000
Trade and other payables	7	5,113,877	6,673,163
Deferred revenue		1,671,364	940,299
Note, advances and loans payable		68,678	290,902
Obligations under finance leases		2,541	3,960
Current portion of long term debt	8	1,517,524	1,784,655
Convertible debenture		1,400,439	1,341,993
Contingent consideration	4	156,282	-
		11,135,629	12,527,505
Non-current liabilities			
Obligations under finance leases		-	562
Long-term debt	8	574,833	638,418
Due to shareholders		55,502	55,502
Contingent consideration	4	-	156,282
Total liabilities		11,765,964	13,378,269
SHAREHOLDERS' EQUITY			
Share capital	9	5,356,053	5,356,053
Contributed surplus and other equity	9	553,826	524,086
Deficit		(4,210,983)	(4,515,447)
Total equity		1,698,896	1,364,692
Total liabilities and shareholders' equity		13,464,860	14,742,961

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

APPROVED BY THE BOARD

"ROGER WOELLER"

Roger Woeller, Director

"MURRAY MALLEY"

Murray M. Malley, Director

BLUMETRIC ENVIRONMENTAL INC.

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

For the six months ended March 31, 2015 and 2014

(in Canadian dollars) (unaudited)

	Notes	Common shares #	Share capital \$	Contributed surplus and other equity \$	Retained earnings (deficit) \$	Total equity (deficit) \$
Balance at October 1, 2015		27,880,140	5,356,053	524,086	(4,515,447)	1,364,692
Share based compensation	9	-	-	29,740	-	29,740
Net income and comprehensive income for the period		-	-	-	304,464	304,464
Balance at March 31, 2016		27,880,140	5,356,053	553,826	(4,210,983)	1,698,896

	Notes	Common shares #	Share capital \$	Contributed surplus and other equity \$	Retained earnings \$	Total equity \$
Balance at October 1, 2014		25,191,656	4,629,424	388,771	(5,531,037)	(512,842)
Share based compensation	9	-	-	104,988	-	104,988
Net income and comprehensive income for the period		-	-	-	359,844	359,844
Balance at March 31, 2015		25,191,656	4,629,424	493,759	(5,171,193)	(48,010)

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 and six months ended March 31, 2016 and 2015

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

	Notes	For the three months ended		For the six months ended	
		March 31		March 31	
		2016	2015	2016	2015
		\$	\$	\$	\$
Revenue	13	7,920,023	7,781,437	15,857,220	15,560,801
Cost of goods sold	10	6,007,260	6,197,397	12,468,199	12,252,130
Gross profit		1,912,763	1,584,040	3,389,021	3,308,671
Operating expenses:					
Selling, general and administrative expenses	10	1,593,108	1,387,875	2,830,021	2,823,170
Gain on disposal of property plant and equipment	5	(180,392)	(247,481)	(180,392)	(247,481)
Reversal of impairment loss on equity investment	4	(44,849)	-	(44,849)	-
Total operating expenses		1,367,867	1,140,394	2,604,780	2,575,689
Operating income		544,896	443,646	784,241	732,982
Share of net loss of an associated company	4	(9,021)	(13,357)	(19,843)	(24,286)
Finance costs	10	(247,190)	(184,215)	(459,934)	(348,852)
Net income and comprehensive income for the period		288,685	246,074	304,464	359,844
Net income per share:					
Basic		\$0.01	\$0.01	\$0.01	\$0.01
Diluted	12	\$0.01	\$0.01	\$0.01	\$0.01
Weighted average number of shares outstanding:					
Basic		27,880,140	25,191,656	27,880,140	25,191,656
Diluted	12	27,880,140	25,191,656	27,880,140	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 six months ended March 31, 2016 and 2015

(in Canadian dollars) (unaudited)

	Notes	For the three months ended		For the six months ended	
		March 31		March 31	
		2016	2015	2016	2015
		\$	\$	\$	\$
Cash flows from operating activities					
Net income for the period		288,685	246,074	304,464	359,844
Non-cash items:					
Depreciation of property, plant and equipment		39,521	111,915	106,407	249,704
Amortization of intangible assets		87,341	102,114	172,840	217,438
Gain on disposal of property, plant and equipment	5	(180,392)	(247,481)	(180,392)	(247,481)
Interest accretion on convertible debenture		29,200	26,902	58,446	53,805
Reversal of impairment of equity investment	4	(44,849)	-	(44,849)	-
Share of net loss of an associated company	4	9,021	13,357	19,843	24,286
Unrealized loss (gain) on investment held for sale		-	-	(3,308)	13,030
Share-based compensation	9	14,785	50,198	29,740	104,988
Changes in working capital items	11	(185,288)	(821,055)	82,338	(921,427)
Net cash generated by (used in) operating activities		58,024	(517,976)	545,529	(145,813)
Cash flows from investing activities					
Acquisition of property, plant and equipment		-	-	(1,565)	(33,577)
Acquisition of intangible assets		-	-	(12,321)	-
Change in short term investments		(88,179)	-	(89,316)	-
Proceeds on disposal of property, plant and equipment		400,203	743,199	400,203	743,199
Net cash generated by investing activities		312,024	743,199	297,001	709,622
Cash flows from financing activities					
Decrease in note, advances and loans payable		(223,273)	(5,603)	(222,224)	(546)
Repayment of long term debt		(293,679)	(586,589)	(330,716)	(681,200)
Repayment of finance leases		(991)	(990)	(1,981)	(1,981)
Increase (decrease) in use of credit facilities		(560,000)	210,000	(540,000)	(90,000)
Net cash used in financing activities		(1,077,943)	(383,182)	(1,094,921)	(773,727)
Net change in cash and cash equivalents		(707,895)	(157,959)	(252,391)	(209,918)
Cash (bank indebtedness) – Beginning of period		432,971	(232,585)	(22,533)	(180,626)
Bank indebtedness – End of period		(274,924)	(390,544)	(274,924)	(390,544)
Supplementary Information					
Interest paid - included in operating activities		111,268	120,537	246,826	236,566
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:

- 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 engineered 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 consolidated 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 generated positive earnings for the last six quarters. However, the Company has not been able to meet its tangible net worth covenant required for its operating line of credit. In the past, this violation triggered a cross default with long term debt borrowings which caused these debt balances to be reclassified to current debt and made them payable on demand. These long term debt borrowings were paid in full during the quarter.

The Company and its bank lender have been working under the terms of a forbearance agreement signed December 14, 2015. This agreement precludes the bank from taking actions to enforce its rights under the existing debt facility and expires July 31, 2016. As of March 31, 2016, the only outstanding facilities with the bank are the Company's operating line of credit and a credit card facility. On May 30, 2016, the Company signed a commitment letter with a new bank, which is subject to customary conditions, including the negotiation of definitive agreements as well as other conditions as set forth in the letter.

The Company's working capital at March 31, 2016 is in a deficit position of \$1.0 million as a result of the convertible debenture and one significant mortgage that have been reclassified as current based on their respective maturities during the current fiscal year.

The Company has a written commitment from its existing mortgagor to renew the mortgage in question for a 12 month period ending July 16, 2017. Additionally, the Company is actively engaging with another institution to replace the existing convertible debentures with another medium term financing arrangement.

The Company's ability to continue operating on a sustainable basis is dependent upon securing a new banking relationship, new financing, generating sufficient cash from its operations to satisfy its liquidity requirements, and continuing to satisfy current creditors. However, there can be no assurance it will be successful in these efforts.

The Company continues to report stable revenues and margins through the year and is driving profitability by continuing to control costs and by ongoing adjustments to its operations.

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 consolidated 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, 2015, 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, 2015.

c. Authorization of Financial Statements

The condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors on May 30, 2016.

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, 2015.

3. Accounts Receivable

	March 31, 2016	September 30, 2015
	\$	\$
Trade receivables	6,307,910	7,662,885
Other receivables	45,712	330,464
Allowance for doubtful accounts	(162,458)	(766,801)
	6,191,164	7,226,548

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

As at December 1, 2010, the Company had a 50% interest in Wasdell Falls Power Corporation, a jointly controlled entity involved in the business of developing a hydroelectric power generation project in the region of the Wasdell Falls dam. During the year ended November 30, 2011, the Company entered into an agreement to sell its interest in Wasdell Falls Power Corporation. The sale involves three transaction steps, the last of which will occur once Wasdell Falls Power Corporation has achieved the commencement of operations. At that time the Company will begin the process of closing out the ownership interest. This will result in the Company receiving the remaining cash and common shares of Coastal Hydro Corporation in exchange for its remaining interests in Wasdell Falls Power Corporation. Total consideration is to be \$465,455, plus 1,500,000 common shares of Coastal Hydro Corporation, a privately owned company. To date, the purchasers have paid \$332,776 in connection with the agreement in exchange for one half of the Company's interest in Wasdell Falls Power Corporation. The Company revalued its remaining 25% interest in Wasdell Falls Power Corporation at a fair value of \$411,478, based on an observed equivalent cash transaction.

The Company is required to make a contingent payment to the previous shareholders of OEL Hydrosys once the Company sells their remaining investment in Wasdell Falls Power Corporation. The fair value of the contingent consideration was calculated using a discounted cash flow method based upon the likelihood and timing of the project becoming operational and a discount rate of 15%. The total contingent consideration at March 31, 2016 is \$156,282 (September 30, 2015 - \$156,282).

Wasdell Falls achieved commencement of operations during the quarter ended March 31, 2016. Subsequent to the quarter, the Company has started the process of closing out the remaining 25% ownership.

During the six months ended March 31, 2016, the Company recognized its share of the net loss of the investment of \$19,843 (March 31, 2015 - \$24,286) and a reversal of impairment loss of \$44,849 (March 31, 2015 - \$nil) to bring the investment to its estimated recoverable amount.

The Company's investment in Wasdell Falls Power Corporation is accounted for under the equity method.

5. Property, Plant and Equipment

During the quarter ended March 31, 2016, the Company sold land and building. In connection with this transaction, a gain on sale in the amount of \$180,392 was recorded in the statement of comprehensive income.

6. Credit Facilities

As at March 31, 2016 short-term bank credit facilities consisted of an operating line of credit in the amount of \$2,000,000 (September 30, 2015 - \$2,000,000), of which approximately \$400,000 has been allocated to issuing project-related letters of credit and guarantees. This has effectively reduced the Company's operating line of credit to \$1,600,000.

At March 31, 2016, the Company had drawn \$930,000 (September 30, 2015 - \$1,470,000) on its operating line of credit, which carries a floating rate of interest of prime plus 3.50%, is payable on demand and is secured by a general security agreement over the Company's assets.

At March 31, 2016, the Company had outstanding letters of guarantee of \$398,741 (September 30, 2015 - \$409,425). These letters of guarantee mature on June 30, 2016.

At March 31, 2016, the Company held short term investments in the amount of \$498,741. Of this amount, \$398,741 is held in connection with the letters of guarantee and \$100,000 is held in consideration of advances made by the bank to the Company under its operating line of credit. All term deposits have been assigned to the Company's bank.

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 \$2.0 million. As at March 31, 2016, the Company was in default of the tangible net worth covenant (see Note 2(a) – Going Concern).

7. Trade and Other Payables

	<u>March 31, 2016</u>	<u>September 30, 2015</u>
	\$	\$
Trade payables	2,970,806	4,575,586
Salaries and benefits payable	811,725	633,842
Other accrued liabilities and payables	1,331,346	1,463,735
	<u>5,113,877</u>	<u>6,673,163</u>

Provisions in the amount of \$30,018 (September 30, 2015 - \$30,018) are included in other accrued liabilities and payables and are entirely with respect to product warranty provisions.

As at March 31, 2016, other accrued liabilities and payables includes amounts owing to key management personnel of \$28,537 (September 30, 2015 - \$32,539).

8. Long Term Debt

	<u>Mar 31, 2016</u>	<u>Sept 30 2015</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 \$335,750 (September 30, 2015 - \$364,927).	1,026,020	1,014,239
Mortgage, bearing interest at BDC Floating Base Rate (4.7% as at March 31, 2016 and September 30, 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 \$760,651 (September 30, 2015 - \$776,287).	620,100	643,500
Bank loan, bearing interest at prime plus 3.5%. Repaid in full on March 18, 2016.	-	145,000
Bank loan, bearing interest at prime plus 3.5%. Repaid in full on March 18, 2016.	-	25,662
Bank loan, bearing interest at prime plus 3.5%. Repaid in full on March 18, 2016.	-	43,836
Bank loan, bearing interest at prime plus 3.5%. Repaid in full on March 18, 2016.	-	86,188
Ford Credit loan, bearing interest at prime, payable in monthly instalments of \$3,190, due May 2017 and secured by a general security agreement.	12,107	24,964
Restructured trade debt ⁽¹⁾	434,130	439,684
Total	<u>2,092,357</u>	<u>2,423,073</u>
Current portion of long-term debt	<u>1,517,524</u>	<u>1,784,655</u>
Long-term portion of long-term debt	<u>574,833</u>	<u>638,418</u>

- (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 was 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. Effective March 1, 2013, payments were suspended and the outstanding balances have been postponed in favour of the Company's bank. During the year ended September 30, 2015, \$332,002 of this debt was converted to equity.

9. Shareholders' Equity

Share Options

Activity in the share option plan is summarized as follows:

	For the six months ended			
	March 31, 2016		March 31, 2015	
	Number of options #	Weighted average exercise price \$	Number of options #	Weighted average exercise price \$
Outstanding, beginning of period	2,009,325	0.61	2,081,775	1.00
Granted	340,000	0.28	-	-
Exercised	-	-	-	-
Forfeited	(207,166)	0.52	(54,867)	0.52
Outstanding, end of period	2,142,159	0.56	2,026,908	0.61
Exercisable, end of period	1,666,323	0.62	1,420,502	0.65

Share-Based Compensation

On November 5, 2015, the Company issued 340,000 options to purchase Common Shares to officers and directors of the Company. The options vest over three years, have an exercise price of \$0.28 per share and a term of five years.

During the six months ended March 31, 2016, the Company recognized \$29,740 (March 31, 2015 - \$104,988) in compensation expense related to the vesting of previously granted stock options.

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

	For the three months ended		For the six months ended	
	March 31		March 31	
	2016	2015	2016	2015
	\$	\$	\$	\$
Employee Benefit Expenses				
Salaries and short term benefits	3,690,330	2,655,865	6,936,006	5,463,928
Share based compensation cost	14,785	50,197	29,741	104,987
Pensions - defined contribution plans	81,232	87,066	168,424	169,979
Employee group benefit expense	113,489	132,443	251,477	318,069
	<u>3,899,836</u>	<u>2,925,571</u>	<u>7,385,648</u>	<u>6,056,963</u>
Finance Costs				
Interest on convertible debentures	61,512	59,078	123,023	118,156
Interest on debt restructuring	61,119	26,481	63,473	46,560
Interest on bank loans	1,439	10,238	3,752	21,294
Other interest and financial expense	123,120	88,759	269,686	163,229
Interest income	-	(341)	-	(387)
	<u>247,190</u>	<u>184,215</u>	<u>459,934</u>	<u>348,852</u>
Other elements of expenses				
Foreign exchange	7,483	27,948	(112,383)	(13,510)

11. Changes in Working Capital Balances

	For the three months ended		For the six months ended	
	March 31		March 31	
	2016	2015	2016	2015
	\$	\$	\$	\$
Accounts receivable	1,771,284	800,058	1,035,384	(489,845)
Inventory	-	829	-	829
Unbilled revenue	(728,532)	837,481	116,739	1,674,174
Prepaid expenses	44,323	(495,547)	(241,564)	(544,434)
Trade and other payables	(1,827,280)	(774,487)	(1,559,286)	(1,321,487)
Deferred revenue	554,917	(1,189,839)	731,065	(240,664)
	<u>(185,288)</u>	<u>(821,505)</u>	<u>82,338</u>	<u>(921,427)</u>

12. Earnings per Share

For the three and six months ended March 31, 2016 and March 31, 2015, 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.

13. Segmented Disclosure

Revenue

The Company currently operates under two reportable segments as follows:

	For the three months ended		For the six months ended	
	March 31		March 31	
	2016	2015	2016	2015
	\$	\$	\$	\$
Professional Services	5,136,048	3,822,226	11,395,874	9,556,551
Water Systems	2,783,975	3,959,211	4,461,346	6,004,250
	7,920,023	7,781,437	15,857,220	15,560,801

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) are as follows.

	For the three months ended		For the six months ended	
	March 31		March 31	
	2016	2015	2016	2015
	\$	\$	\$	\$
Canada	7,010,659	7,252,885	14,316,350	14,326,435
International	624,634	445,841	758,107	871,186
United States	284,730	82,711	782,763	363,180
	7,920,023	7,781,437	15,857,220	15,560,801

Of total revenue for the three months ended March 31, 2016, approximately 36% was derived from three clients (three months ended March 31, 2015 - 38% from three clients).

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:

	March 31, 2016		September 30, 2015	
	\$		\$	
	Professional Services	Water Systems	Professional Services	Water Systems
Trade accounts receivable	3,592,673	2,552,779	4,124,053	2,772,031
Unbilled revenue	1,432,875	1,301,463	1,590,209	1,260,868
Deferred revenue	999,037	672,327	512,545	427,754

14. 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.

15. Compensation of Key Management Personnel

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

	For the six months ended	
	March 31	
	2016	2015
	\$	\$
Salaries, short-term benefits and share based compensation	528,793	356,538