

# Condensed Consolidated Interim Financial Statements

Three and Six Month Period Ended  
March 31, 2017

(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 STATEMENTS OF FINANCIAL POSITION**  
(in Canadian dollars)

		March 31 2017 \$	September 30 2016 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		-	314,360
Short term investments		-	100,000
Accounts receivable	3	7,395,912	4,547,825
Unbilled revenue		2,839,187	4,047,641
Prepaid expenses		476,298	512,806
Investment held for sale	5	5,542	-
Investment accounted for using the equity method	4	251,282	251,282
		<b>10,968,221</b>	<b>9,773,914</b>
<b>Non-current assets</b>			
Property, plant and equipment		1,088,708	1,148,402
Intangible assets		233,632	362,246
Long term investment	5	-	11,085
Goodwill		1,592,095	1,592,095
<b>Total assets</b>		<b>13,882,656</b>	<b>12,887,742</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Bank indebtedness	6	956,076	556,662
Trade and other payables	7	4,157,944	4,974,764
Deferred revenue		1,695,691	564,623
Advances		-	8,627
Obligations under finance leases		-	562
Current portion of long term debt		142,593	146,519
Contingent consideration	4	156,282	156,282
		<b>7,108,586</b>	<b>6,408,039</b>
<b>Non-current liabilities</b>			
Long-term debt		4,314,166	4,342,111
Advances		60,000	60,000
Due to shareholders		55,502	55,502
<b>Total liabilities</b>		<b>11,538,254</b>	<b>10,865,652</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	8	5,356,053	5,356,053
Contributed surplus and other equity	8	597,189	593,119
Deficit		(3,608,840)	(3,927,082)
<b>Total equity</b>		<b>2,344,402</b>	<b>2,022,090</b>
<b>Total liabilities and shareholders' equity</b>		<b>13,882,656</b>	<b>12,887,742</b>

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

APPROVED BY THE BOARD

"Vijay Jog"

Vijay Jog, Director

"Roger Woeller"

Roger Woeller, Director

**BLUMETRIC ENVIRONMENTAL INC.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**For the six months ended March 31, 2017 and 2016**  
(in Canadian dollars) (unaudited)

	Common	Share capital	Contributed	Retained	Total equity
Notes	#	\$	\$	\$	\$
<b>Balance at October 1, 2016</b>	<b>27,880,140</b>	<b>5,356,053</b>	<b>593,119</b>	<b>(3,927,082)</b>	<b>2,022,090</b>
Share based compensation	-	-	4,070	-	4,070
Net income and comprehensive income for the period	-	-	-	318,242	318,242
<b>Balance at March 31, 2017</b>	<b>27,880,140</b>	<b>5,356,053</b>	<b>597,189</b>	<b>(3,608,840)</b>	<b>2,344,402</b>
	Common	Share capital	Contributed	Retained	Total equity
Notes	#	\$	\$	\$	\$
<b>Balance at October 1, 2015</b>	<b>27,880,140</b>	<b>5,356,053</b>	<b>524,086</b>	<b>(4,515,447)</b>	<b>1,364,692</b>
Share based compensation	-	-	29,740	-	29,740
Net income and comprehensive income for the period	-	-	-	304,464	304,464
<b>Balance at March 31, 2016</b>	<b>27,880,140</b>	<b>5,356,053</b>	<b>553,826</b>	<b>(4,210,983)</b>	<b>1,698,896</b>

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 six months ended March 31, 2017 and 2016**  
(in Canadian dollars, except the number of shares)

	Notes	For the three months ended		For the six months ended	
		March 31		March 31	
		2017	2016	2017	2016
		\$	\$	\$	\$
Revenue	12	<b>7,218,939</b>	7,920,023	<b>15,507,404</b>	15,857,220
Cost of goods sold	9	<b>5,615,334</b>	6,007,260	<b>12,207,085</b>	12,468,199
Gross profit		<b>1,603,605</b>	1,912,763	<b>3,300,319</b>	3,389,021
Operating expenses:					
Selling, general and administrative expenses	9	<b>1,348,775</b>	1,593,108	<b>2,628,856</b>	2,830,021
Gain on disposal of property plant and equipment		-	(180,392)	-	(180,392)
Reversal of impairment loss on equity investment		-	(44,849)	-	(44,849)
Total operating expenses		<b>1,348,775</b>	1,367,867	<b>2,628,856</b>	<b>2,604,780</b>
Operating income		<b>254,830</b>	544,896	<b>671,463</b>	784,241
Share of net loss of an associated company	4	-	(9,021)	-	(19,843)
Finance costs	9	<b>(165,052)</b>	(247,190)	<b>(353,221)</b>	(459,934)
Net income and comprehensive income for the period		<b>89,778</b>	288,685	<b>318,242</b>	304,464
Net income per share:					
Basic		<b>\$0.00</b>	\$0.01	<b>\$0.01</b>	\$0.01
Diluted	11	<b>\$0.00</b>	\$0.01	<b>\$0.01</b>	\$0.01
Weighted average number of shares outstanding:					
Basic		<b>27,880,140</b>	27,880,140	<b>27,880,140</b>	27,880,140
Diluted	11	<b>27,931,569</b>	27,880,140	<b>27,931,569</b>	27,880,140

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 six months ended March 31, 2017 and 2016**  
(in Canadian dollars) (unaudited)

	Notes	For the three months ended		For the six months ended	
		March 31		March 31	
		2017	2016	2017	2016
		\$	\$	\$	\$
<b>Cash flows from operating activities</b>					
Net income for the period		89,778	288,685	318,242	304,464
Non-cash items:					
Depreciation of property, plant and equipment		33,957	39,521	67,921	106,407
Amortization of intangible assets		64,307	87,341	128,614	172,840
Gain on disposal of property plant and equipment		-	(180,392)	-	(180,392)
Interest accretion on convertible debenture		-	29,200	-	58,446
Interest accretion on long term debt		5,366	-	15,533	-
Reversal of impairment of equity investment		-	(44,849)	-	(44,849)
Share of net loss of an associated company	4	-	9,021	-	19,843
Unrealized gain on investment held for sale		-	-	-	(3,308)
Realized gain on investment held for sale		-	-	(12,556)	-
Share-based compensation	8	(7,866)	14,785	4,070	29,740
Changes in working capital items	10	(152,537)	(185,288)	(1,288,877)	82,338
<b>Net cash generated by operating activities</b>		<b>33,005</b>	<b>58,024</b>	<b>(767,053)</b>	<b>545,529</b>
<b>Cash flows from investing activities</b>					
Acquisition of property, plant and equipment		(8,227)	-	(8,227)	(1,565)
Acquisition of intangible assets		-	-	-	(12,321)
Change in short term investment		-	(88,179)	-	(89,316)
Proceeds from disposal of property plant and equipment		-	400,203	-	400,203
Proceeds from sale of investment held for sale		-	-	18,098	-
Proceeds on disposal of short term investments		-	-	100,000	-
Purchase of short term investments		-	-	-	-
<b>Net cash used in investing activities</b>		<b>(8,227)</b>	<b>312,024</b>	<b>109,871</b>	<b>297,001</b>
<b>Cash flows from financing activities</b>					
Decrease in note, advances and loans payable		(6,469)	(223,273)	(8,627)	(222,224)
Repayments of long term debt		(22,557)	(293,679)	(47,404)	(330,716)
Principal payments on finance leases		-	(991)	(562)	(1,981)
Increase in use of credit facilities		-	(560,000)	-	(540,000)
<b>Net cash used in financing activities</b>		<b>(29,026)</b>	<b>(1,077,943)</b>	<b>(56,593)</b>	<b>(1,094,921)</b>
Net change in cash and cash equivalents		(4,249)	(707,895)	(713,774)	(252,391)
Bank indebtedness – Beginning of period		(951,827)	432,971	(242,302)	(22,533)
<b>Cash (bank indebtedness) – End of period</b>		<b>(956,076)</b>	<b>(274,924)</b>	<b>(956,076)</b>	<b>(274,924)</b>
<b>Cash (bank indebtedness) is composed of:</b>					
Cash		-	432,971	-	432,971
Bank indebtedness		(956,076)	-	(956,076)	-
		(956,076)	432,971	(956,076)	432,971
<b>Supplementary Information</b>					
Interest paid - included in operating activities		139,798	111,268	249,166	246,826

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

## **1. Nature of Operations**

BluMetric Environmental Inc. (“the Company”) 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.

The Company 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. Basis of Presentation**

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. The ability for the Company to continue as a going concern is dependant on its ability to produce sufficient revenues and limit expenses to allow for the Company to service its debt and remain onside with its debt covenants.

The Company has generated positive earnings for the six months ended March 31, 2017, as well as for the two years ended September 30, 2016 and September 30, 2015. The Company anticipates having sufficient funds over the next twelve months to discharge its liabilities, as well as sufficient earnings to meet all debt covenants.

In assessing whether this assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. 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 condensed consolidated interim 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, 2016, which can be found, along with other information, at [www.sedar.com](http://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, 2017.

**d. Presentation and Functional Currency**

The Company's presentation and functional currency is the Canadian dollar.

**e. Basis of Measurement**

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

**f. Accounting Policies**

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, 2016.

**g. Future applicable accounting standards**

*Accounting standards issued but not yet applied*

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Company. The Company does not intend to early adopt these standards and is currently evaluating the impact of these new standards on the Financial Statements.

Management anticipates that all of the relevant pronouncements will be adopted in the Company's accounting policies for the first reporting period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

**i. IFRS 9 "Financial Instruments" (IFRS 9)**

The final version of IFRS 9 (2014) was issued in July 2014 as a complete standard including the requirements for classification and measurement of financial instruments, the new expected loss impairment model and the new hedge accounting model. IFRS 9 (2014) will replace IAS 39 *Financial instruments: recognition and measurement*. IFRS 9 (2014) is effective for reporting periods beginning on or after January 1, 2018. The Company has not yet determined the impact of the standard on its consolidated financial statements but expects to report more detailed information including its implementation plan and potential financial effects in our year end 2017 financial statements.

**ii. IFRS 15 “Revenue from Contracts with Customers” (IFRS 15)**

On May 28, 2014, the IASB published IFRS 15, “Revenue from Contracts with Customers” (“IFRS 15”) replacing IAS 11, “Construction Contracts”, IAS 18, “Revenue”, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard is effective for annual periods beginning on or after January 1, 2018. The Company has not yet determined the impact of the standard on its consolidated financial statements but expects to report more detailed information including its implementation plan and potential financial effects in our year end 2017 financial statements.

**3. Accounts Receivable**

	<b>March 31, 2017</b>	September 30, 2016
	\$	\$
Trade receivables	<b>7,687,740</b>	4,638,291
Other receivables	<b>30,288</b>	25,258
Allowance for doubtful accounts	<b>(322,116)</b>	(115,724)
	<b>7,395,912</b>	4,547,825

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 receivable found to be impaired.

**4. Investment Accounted for using the Equity Method**

The Company’s investment in Wasdell Falls Power Corporation is accounted for under the equity method. Wasdell Falls achieved commencement of operations during the quarter ended March 31, 2016. The Company is in the process of closing out the remaining 25% ownership and will receive the remaining cash and common shares of Coastal Hydro Corporation in exchange for its remaining interests in Wasdell Falls Power Corporation. During the six months ended March 31, 2017, the Company recognized its share of the net loss of the investment of \$Nil (six months ended March 31, 2016 - \$19,843).

**5. Investment**

On December 15, 2016, the Company sold half of its 17,828 Class A shares of Canzone Limited, a private company, for proceeds of \$18,098 and recognized a gain on sale of \$12,556. The remaining 8,914 Class A shares will be sold by June 15, 2017.



## 6. Credit Facilities

On September 12, 2016, the Company entered into new credit and loan arrangements.

The Company's short-term credit facilities consist of an operating demand loan in the amount of \$2,500,000, with a \$500,000 sublimit for letters of credit. Each letter of credit is 100% guaranteed through a separate program. This replaces the Company's previous line of credit which consisted of an operating line of credit in the amount of \$2,000,000.

The operating demand loan is supported through a separate program by way of account performance security guarantees in favour of the bank.

The operating demand loan carries a floating rate of interest of prime plus 2.25% and is secured by a general security agreement over the Company's assets. The previous line of credit carried a floating rate of interest of prime plus 3.50%.

In addition to the operating demand loan, the Company entered into an agreement with another institution on September 12, 2016 for a secured five-year term loan in the amount of \$2,500,000. This loan bears interest at a rate of 10% and requires the Company to pay royalty fees on gross revenue beginning February 2018. The royalty rate is tiered and applies at a rate of 0.35% of gross revenue up to \$38,000,000, and then decreases to 0.15% on gross revenue in excess of this amount.

At March 31, 2017, the Company had drawn \$1,074,551 on its operating demand loan (September 30, 2016 - \$949,691) and it had \$212,460 outstanding letters of guarantee (September 30, 2016 - \$Nil).

The Company has certain covenants in accordance with its new credit and loan arrangements on both a quarterly basis as well as rolling quarterly basis. As at March 31, 2017, the Company is inside with its covenants.

## 7. Trade and Other Payables

	<b>March 31, 2017</b>	September 30, 2016
	\$	\$
Trade payables	<b>1,855,696</b>	3,256,661
Salaries and benefits payable	<b>683,738</b>	662,336
Other accrued liabilities and payables	<b>1,618,510</b>	1,055,767
	<b>4,157,944</b>	4,974,764

As at March 31, 2017, provisions in the amount of \$30,000 (September 30, 2016 - \$30,000) are included in other accrued liabilities and payables and are entirely with respect to product warranty provisions.

As at March 31, 2017, other accrued liabilities and payables includes amounts owing to key management personnel of \$68,407 (September 30, 2016 - \$89,996) and directors of \$1,167 (September 30, 2016 - \$84,062).

As at March 31, 2017 there was \$514,986 (September 30, 2016 - \$6,017) owed to government agencies included in other accrued liabilities and payables.

## 8. Shareholders' Equity

### Share Options

Activity in the share option plan is summarized as follows:

	For the six months ended			
	March 31, 2017		March 31, 2016	
	Number of options #	Weighted average exercise price \$	Number of options #	Weighted average exercise price \$
Outstanding, beginning of year	1,818,225	0.44	2,009,325	0.61
Granted	120,000	0.32	340,000	0.28
Expired	(276,000)	0.50	-	-
Forfeited	(178,600)	0.26	(207,166)	0.52
Outstanding, end of year	1,483,625	0.45	2,142,159	0.56
Exercisable, end of year	1,116,959	0.50	1,666,323	0.62

Options have an exercise price in the range of \$0.20 - \$1.00.

### Share-Based Compensation

During the three months ended March 31, 2017, the Company recognized a recovery of \$7,866 (March 31, 2016 – an expense of \$14,785) in share based compensation expense.

## 9. Information Included in Consolidated Statements of Comprehensive Income

	For the three months ended		For the six months ended	
	March 31		March 31	
	2017	2016	2017	2016
	\$	\$	\$	\$
<b>Employee Benefit Expenses</b>				
Salaries and short term benefits	3,173,503	3,690,330	6,199,735	6,936,006
Share based compensation cost (Note 8)	(7,866)	14,785	4,070	29,741
Pensions - defined contribution plans	91,131	81,232	179,649	168,424
Employee group benefit expense	193,991	113,489	369,586	251,477
	3,450,759	3,899,836	6,753,040	7,385,648
<b>Finance Costs</b>				
Convertible debenture	-	61,510	-	123,021
Restructured debt	3,322	49,829	16,633	60,227
Bank loans and line of credit	95,018	45,140	203,775	100,535
Mortgage	32,763	42,536	65,384	85,562
Bank charges	10,923	5,990	19,076	12,700
Other finance charges	23,026	42,186	48,353	77,890
	165,052	247,190	353,221	459,934
<b>Other elements of expenses</b>				
Foreign exchange gain	15,246	7,483	(18,784)	(112,383)

## 10. Changes in Working Capital Balances

	For the three months ended		For the six months ended	
	March 31		March 31	
	2017	2016	2017	2016
	\$	\$	\$	\$
Accounts receivable	(1,365,509)	1,771,284	(2,848,087)	1,035,384
Unbilled revenue	870,939	(728,532)	1,208,454	116,739
Prepaid expenses	(264,264)	44,323	36,508	(241,564)
Trade and other payables	7,216	(1,827,280)	(816,820)	(1,559,286)
Deferred revenue	599,081	554,917	1,131,068	731,065
	(152,537)	(185,288)	(1,288,877)	82,338

## 11. Earnings per Share

The following table summarizes the calculation of the weighted average number of basic and diluted common shares:

	For the three months ended		For the six months ended	
	March 31		March 31	
	2017	2016	2017	2016
Weighted average number of basic common shares	27,880,140	27,880,140	27,880,140	27,880,140
Effect of share options on issue	51,429	-	51,429	-
Weighted average number of diluted common shares	27,931,569	27,880,140	27,931,569	27,880,140

Options that were anti-dilutive are not included in the computation of diluted common shares. For the six months ended March 31, 2017, 1,303,625 options were excluded from the calculation because they were anti-dilutive (six months ended March 31, 2016 – 2,142,159).

## 12. 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	
	2017	2016	2017	2016
	\$	\$	\$	\$
Professional Services	4,930,777	5,136,048	11,289,162	11,395,874
Water Systems	2,288,162	2,783,975	4,218,242	4,461,346
	7,218,939	7,920,023	15,507,404	15,857,220

### 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	
	2017	2016	2017	2016
	\$	\$	\$	\$
Canada	7,203,410	7,010,659	15,369,567	14,316,350
International	9,590	624,634	120,218	758,107
United States	5,939	284,730	17,619	782,763
	<b>7,218,939</b>	<b>7,920,023</b>	<b>15,507,404</b>	<b>15,857,220</b>

Of total revenue for the three months ended March 31, 2017, approximately 32% was derived from one client in Professional Services and 75% was from one client in Water Systems (March 31, 2016 -36% was derived 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, 2017		September 30, 2016	
	\$		\$	
	Professional Services	Water Systems	Professional Services	Water Systems
Trade accounts receivable	5,198,076	2,167,548	3,492,810	1,029,757
Unbilled revenue	2,139,572	699,615	2,598,222	1,449,419
Deferred revenue	836,237	859,454	432,197	132,428

### 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. During the six months ended March 31, 2017, the Company incurred \$55,000 (six months ended March 31, 2016 – \$41,750) for amounts owed to directors.

#### Compensation of Key Management Personnel

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

	For the three months ended March 31		For the six months ended March 31	
	2017	2016	2017	2016
	\$	\$	\$	\$
Salaries, short-term benefits and share based compensation	<b>195,484</b>	238,118	<b>393,696</b>	532,889
Salaries	<b>163,750</b>	192,750	<b>327,500</b>	440,000
Short term benefits	<b>32,817</b>	43,332	<b>65,635</b>	88,793
Share based compensation	<b>(1,084)</b>	2,036	<b>560</b>	4,096
	<b>195,484</b>	238,118	<b>393,696</b>	532,889