Consolidated Financial Statements

Year ended September 30, 2016 and September 30, 2015

(expressed in Canadian Dollars)

Independent Auditors' Report

To the Shareholders of BluMetric Environmental Inc.:
We have audited the accompanying consolidated financial statements of BluMetric Environmental Inc., which comprise the consolidated statement of financial position as at September 30, 2016 and September 30, 2015, and the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of BluMetric Environmental Inc. as at September 30, 2016 and September 30, 2015, and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ottawa, Ontario

January 30, 2017

Chartered Professional Accountants

Licensed Public Accountants

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

	Notes	September 30 2016 $	September 30 2015 $
ASSETS			
Current assets			
Cash		314,360	-
Short term investments	10	100,000	409,425
Accounts receivable	4	4,547,825	7,226,548
Unbilled revenue		4,047,641	2,851,077
Prepaid expenses		512,806	231,579
Investment held for sale		-	9,372
Investment accounted for using the equity method	7	251,282	-
		9,773,914	**10,728,001**
Non-current assets			
Property, plant and equipment	5	1,148,402	1,535,622
Intangible assets	6	362,246	649,882
Investment accounted for using the equity method	7	-	226,276
Long term investment	8	11,085	11,085
Goodwill	9	1,592,095	1,592,095
Total assets		**12,887,742**	**14,742,961**
LIABILITIES			
Current liabilities			
Bank indebtedness	10	556,662	22,533
Credit facilities	10	-	1,470,000
Trade and other payables	11	4,974,764	6,673,163
Deferred revenue		564,623	940,299
Advances	12	8,627	66,582
Note payable		-	224,320
Obligations under finance leases	13	562	3,960
Current portion of long term debt	14	146,519	1,784,655
Convertible debenture	15	-	1,341,993
Contingent consideration	7	156,282	-
		6,408,039	**12,527,505**
Non-current liabilities			
Obligations under finance leases	13	-	562
Long-term debt	14	4,342,111	638,418
Advances	12	60,000	-
Due to shareholders	16	55,502	55,502
Contingent consideration	7	-	156,282
Total liabilities		**10,865,652**	**13,378,269**
SHAREHOLDERS' EQUITY			
Share capital	17	5,356,053	5,356,053
Contributed surplus and other equity	17	593,119	524,086
Deficit		(3,927,082)	(4,515,447)
Total equity		**2,022,090**	**1,364,692**
Total liabilities and shareholders' equity		**12,887,742**	**14,742,961**

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

APPROVED BY THE BOARD

"ROGER M. WOELLER" "MURRAY J. MALLEY"

Roger M. Woeller, Director Murray J. Malley, Director

BLUMETRIC ENVIRONMENTAL INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)
For the years ended September 30, 2016 and 2015
(in Canadian dollars)

	Notes	Common shares #	Share capital $	Contributed surplus and other equity $	Retained earnings (deficit) $	Total equity (deficit) $
Balance at September 30, 2014		**25,191,656**	**4,629,424**	**388,771**	**(5,531,037)**	**(512,842)**
Debt conversion	17	2,688,484	726,629	-	-	726,629
Share based compensation	17	-	-	135,315	-	135,315
Net income and comprehensive income for the year		-	-	-	1,015,590	1,015,590
Balance at September 30, 2015		**27,880,140**	**5,356,053**	**524,086**	**(4,515,447)**	**1,364,692**
Share based compensation	17	-	-	69,033	-	69,033
Net income and comprehensive income for the year		-	-	-	588,365	588,365
Balance at September 30, 2016		**27,880,140**	**5,356,053**	**593,119**	**(3,927,082)**	**2,022,090**

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

BLUMETRIC ENVIRONMENTAL INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended September 30, 2016 and 2015
(in Canadian dollars)

	Notes	September 30, 2016 $	September 30, 2015 $
Revenue	23	**31,493,595**	33,478,800
Cost of goods sold	19	**25,145,136**	26,099,352
Gross profit		**6,348,459**	7,379,448
Operating expenses:			
Selling, general and administrative expenses	19	**5,144,908**	5,747,768
Gain on debt conversion	17	**-**	(26,885)
Gain on disposal of property, plant and equipment	5	**(172,876)**	(237,443)
Impairment (reversal of impairment) of equity investment	7	**(44,849)**	121,000
Total operating expenses		**4,927,183**	5,604,440
Operating income		**1,421,276**	1,775,008
Share of net loss of an associated company	7	**(19,843)**	(30,828)
Finance costs	19	**(813,068)**	(728,590)
Net income and comprehensive income for the year		**588,365**	**1,015,590**
Net income per share:			
Basic		**$0.02**	$0.04
Diluted	21	**$0.02**	$0.04
Weighted average number of shares outstanding:			
Basic		**27,880,140**	23,235,850
Diluted	21	**27,883,930**	23,235,850

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

BLUMETRIC ENVIRONMENTAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended September 30, 2016 and 2015
(in Canadian dollars)

	Notes	September 30, 2016 $	September 30, 2015 $
Cash flows from operating activities			
Net income for the year		**588,365**	1,015,590
Non-cash items:			
Depreciation of property, plant and equipment	5	**174,703**	433,564
Amortization of intangible assets	6	**299,956**	376,574
Gain on disposal of property, plant and equipment	5	**(172,876)**	(237,443)
Impairment (reversal of impairment) of equity investment	7	**(44,849)**	121,000
Gain on debt conversion	17	**-**	(26,885)
Interest accretion on convertible debenture	15	**88,007**	110,044
Interest accretion on long term debt		**57,517**	103,643
Accrued Interest on advances		**4,202**	19,625
Share of net loss of an associated company	7	**19,843**	30,828
Realized gain on investment held for sale		**(6,096)**	-
Unrealized loss on investment held for sale		**-**	10,412
Share-based compensation	17	**69,033**	135,315
Changes in working capital items	20	**(1,097,463)**	(1,856,698)
Net cash generated by (used in) operating activities		**(19,658)**	235,569
Cash flows from investing activities			
Acquisition of property, plant and equipment	5	**(14,357)**	(108,966)
Proceeds from sale of property, plant and equipment	5	**399,750**	733,162
Acquisition of intangible assets	6	**(12,320)**	(15,012)
Proceeds on disposal of short term investments		**409,425**	-
Purchase of short term investments		**(100,000)**	(409,425)
Proceeds on disposal of investment held for sale		**15,468**	13,842
Net cash generated by investing activities		**697,966**	213,601
Cash flows from financing activities			
Share issue costs on debt conversion	17	**-**	(26,146)
Remittance of withholding taxes related to debt conversion		**-**	(112,365)
Repayment of advances		**(2,157)**	(10,623)
Debt financing fees		**(70,243)**	-
Proceeds from long term debt		**2,500,000**	-
Repayment of convertible debentures		**(1,430,000)**	-
Repayments of long term debt		**(421,717)**	(827,937)
Principal payments on finance leases		**(3,960)**	(4,006)
Increase (decrease) in use of credit facilities		**(1,470,000)**	690,000
Net cash used in financing activities		**(898,077)**	(291,077)
Net change in cash and cash equivalents		**(219,769)**	158,093
Bank indebtedness – Beginning of year		**(22,533)**	(180,626)
Bank indebtedness – End of year		**(242,302)**	(22,533)
Bank indebtedness is composed of:			
Cash		**314,360**	-
Bank indebtedness		**(556,662)**	(22,533)
		(242,302)	(22,533)
Supplementary Information			
Non-cash change in working capital (debt settled with shares)		**-**	110,157
Interest paid - included in operating activities		**551,336**	225,830

The accompanying notes are an integral part of these consolidated 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

a. Basis of Presentation

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. 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 convenants.

The Company has generated positive earnings 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 sufficent 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

c. Authorization of Financial Statements

The consolidated financial statements were approved and authorized for issue by the Board of Directors on January 30, 2017.

d. Presentation and Functional Currency

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

e. Basis of Measurement

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

f. Critical Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of the Company's assets, liabilities, revenues and expenses during the reporting periods presented.

i. Judgments

The following are significant management judgments in applying the accounting policies of the Company that have the most significant effect on the financial statements:

a. Going Concern

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenditures and meet its liabilities for the ensuing year involves significant judgment based on historical experience and other factors including expectation of future events that are believed to be reasonable under the circumstances.

b. Percentage of completion of revenue contracts

The gross amount due from customers for contract work is presented within unbilled revenues for all contracts in progress for which costs incurred plus recognized profits (less recognized losses) exceeds progress billings.

For contracts accounted for using the percentage of completion method, the stage of completion is assessed by management taking into consideration all information available at the reporting date. In this process, management exercises significant judgment about actual work performed and the estimated costs to complete work.

c. Consulting contracts

Determining if the Company is acting as a principal or an agent in the context of the particulars of the underlying contracts requires management judgment. If it is determined that an agent relationship exists, the revenue recorded would be net of direct costs.

d. Recognition of deferred income tax assets and measurement of income tax expense

Management continually evaluates the likelihood that its deferred tax assets could be realized. This requires management to assess whether it is probable that sufficient taxable income will exist in the future to utilize these losses within the carry-forward period. By its nature, this assessment requires significant judgment. To date, management has not recognized any deferred tax assets in excess of existing taxable temporary differences expected to reverse within the carry-forward period.

ii. Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, revenues and expenses is provided below. Actual results may be substantially different.

a. Useful lives of depreciable assets

Management reviews the useful lives, depreciation methods and residual values of depreciable assets at each reporting date, at which management assesses the useful lives which represent the expected utility of the assets of the Company. Actual results, however, may vary due to technical or commercial obsolescence.

b. Allowance for doubtful accounts and revenue adjustments

At each reporting year, the Company makes an assessment of whether accounts receivable are collectible from customers. Accordingly, management establishes an allowance for estimated losses arising from non-payment and other revenue adjustments, taking into consideration customer credit-worthiness, current economic trends and past experience. If future collections and trends differ from estimates, future earnings will be affected.

c. *Impairment assessments*

Long-lived assets, such as property, plant and equipment and intangible assets, subject to amortization, are tested for recoverability when there is an indication that their carrying value may not be recoverable. Goodwill is tested at least annually. Determining if there are any facts and circumstances indicating impairment loss or reversal of impairment losses are a subjective process involving judgment and a number of estimates and assumptions in many cases. The carrying value of a long-lived asset is not recoverable when it exceeds the recoverable amount, being the higher of an asset's fair value less costs to sell and its value in use. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate. In most cases, determining the applicable discount rate involves estimating the appropriate adjustments to market risk and the appropriate adjustment to asset specific risk factors. The actual results may vary and cause significant adjustments to the Company's assets within the next financial year.

d. Share-based compensation

The estimation of share-based payments costs requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Company has made estimates as to the volatility of its own shares, the probable life of share options granted and the time of exercise of those share options. The model used by the Company is the Black-Scholes valuation model.

3. Summary of Accounting Policies

a. Principles of Consolidation

The consolidated financial statements include the accounts of the parent company and its wholly-owned subsidiary WESA Tecnologias S.A. de C.V., El Salvador. All inter-company transactions and balances between these companies have been eliminated on consolidation including unrealized gains or losses.

The subsidiary is an entity over which the Company has the power to control the financial and operating policies. The Company obtains and exercises control through owning more than half of the voting rights of its subsidiary. The subsidiary has a reporting date of December 31.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Company. The Company attributes comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

b. Investment in Associate

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but without control or joint control over those policies.

The Company's investment in its associate is accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Company's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated statement of comprehensive income reflects the Company's share of the results of operations of the associate. In addition, when there has been a change recognized directly in the equity of the associate, the Company recognizes its share of any changes, when applicable, in the consolidated statement of changes in shareholders' equity. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Company's share of profit or loss of an associate is shown on the face of the consolidated statement of comprehensive income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognizes the loss as share of profit of an associate in the consolidated statement of comprehensive income.

c. Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Company elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic

circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss. It is then considered in the determination of goodwill.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Company re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

d. Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transaction costs, except for those carried at fair value through profit or loss which are measured initially at fair value.

Subsequent measurement of financial assets and financial liabilities are described below.

i. Loans and receivables are subsequently measured at amortized cost using the effective interest method, less any impairment losses, with interest recognized on an effective yield basis.
ii. Financial assets at fair value through profit or loss are subsequently measured at fair value and changes therein, are recognized in comprehensive income.
iii. Financial liabilities are subsequently measured at amortized cost using the effective interest method.
iv. Financial liabilities at fair value through profit or loss are subsequently measured at fair value and changes therein, are recognized in comprehensive income. The Company does not have any liabilities in this category.

Available for sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. Impairment charges are recognized in profit or loss.

At the end of each reporting period, the Company assesses whether there is objective evidence that a financial asset measured at amortized cost is impaired and changes therein are recognized in the consolidated statement of comprehensive income.

Financial assets are derecognized when the contractual rights to the cash flows from financial assets expire or have been transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires.

All income and expenses relating to financial assets are recognized in profit or loss and are presented within finance costs and finance income, except for impairment of accounts receivable which is presented within general and administrative expenses.

e. Fair Value Hierarchy

The Company classifies financial instruments recognized at fair value in accordance with a fair value hierarchy that prioritizes the inputs to the valuation technique used to measure fair value as per IFRS 7 – Financial Instruments: Disclosures. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described below:

Level 1 (“L1”) – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 (“L2”) – Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3 (“L3”) – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

f. Convertible debentures

The convertible debentures are seperated into their debt and equity components. The value of the debt component of the debentures is determined, at the time of issuance, by discounting the future interest obligations and the principal payment due at maturity, using a discount rate which represents the estimated borrowing rate available to the Company for similar debentures having no conversion rights. The remaining portion of the gross proceeds of the debentures issued is presented as an option to convert debentures in equity net of the tax implications, and the attributed amount remains over the term of the related convertible debentures. Convertible debenture issue costs are applied against the two components on a pro rata basis of the allocated proceeds of issue.

g. Foreign currency transactions and balances

Foreign currency transactions are translated using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of

such transactions and from the remeasurement of monetary items denominated in foreign currencies at the exchange rates prevailing at the period end date are recognized in profit or loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

h. Revenue Recognition

Revenue comprises revenue from the rendering of services and the sale of goods. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, sales taxes, returns and rebates.

Unbilled revenue represents work in progress that has been recognized as revenue but not yet invoiced to clients.

Amounts billed in advance of performance are recorded as deferred revenue. Deferred revenue is classified as non-current if it relates to performance obligations that are expected to be fulfilled after 12 months from the end of the reporting period.

Revenue from fixed-fee contracts is recognized using the percentage of completion method of accounting. The Company generally uses the cost approach to measure the progress to completion for these contracts. Under this method, the stage of completion is measured by reference to actual costs incurred to date as a percentage of total estimated costs to complete the contract, which are reviewed and updated routinely for contracts in progress. The cumulative effect of any change in estimate is recorded in the period when the change in estimate is determined.

Revenue from time-and-material contracts is recognized as costs are incurred. Revenue is calculated based on billing rates for the services performed and material costs incurred.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered. Provisions for estimated losses on incomplete contracts are made in the period in which the losses are determined.

In the course of providing its services, the Company incurs certain direct costs such as travel and living expenses for its staff, and other expenditures such as sub-consultants and third-party product or service providers, that are recoverable directly from clients. These direct costs are included in the Company's gross revenue, as management has determined that it is acting as the principal in these projects. Since such direct costs can vary significantly from contract to contract, changes in revenue may not be indicative of the Company's revenue trends.

i. Basic and Diluted Earnings Per Share

The basic earnings per share is calculated on the basis of net earnings attributable to the owners of the parent divided by the weighted average number of common shares outstanding during the year. Diluted earnings (per share is calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares.

j. Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for it to be

capable of operating in the manner intended by management and, where applicable, borrowing costs and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Company reviews residual values and remaining useful lives are updated as required at least annually.

Depreciation is calculated on a straight line basis to write down the cost less estimated residual value over the anticipated useful lives of the assets as follows:

Buildings	20 years
Computer hardware	3 years
Field equipment	5 years
Office furniture and equipment	5 years
Leasehold improvements	Over term of lease
Paving	15 years
Vehicles	3 years

In the case of assets under finance leases, expected useful lives are determined by reference to comparable owned assets or over the lease term, if shorter.

Depreciation is included in selling, general and administrative expenses in the consolidated statement of comprehensive income.

k. Intangible Assets

Intangible assets are recorded at cost less accumulated amortization and impairment. They are amortized on a straight-line basis over their remaining estimated useful lives as these assets are considered finite.

The following useful lives are applied:

Trademarks	25 years
Computer Software	5 years
Patents	17 years
Technology	3 years
Customer lists	5 years

Amortization is included in selling, general and administrative expenses in comprehensive income.

l. Impairment Testing of Tangible and Intangible Assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable revenue streams (cash generating units).

The recoverable amount is the higher of fair value less selling costs and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of comprehensive income. Impairment losses for cash-generating units are charged pro rata to the assets in the cash generating units.

Where an impairment loss is subsequently reversed, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statement of comprehensive income.

m. Goodwill

Goodwill is not amortized but it is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Company's cash-generating units or a group of cash-generating units expected to benefit from the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis of the carrying amount of each asset in the unit. The recoverable amount is the greater of its value in use and its fair value less costs to sell, generally determined using a discounted cash flow model. An impairment loss recognized for goodwill is not reversed in a subsequent period, even if future events suggest that the value of goodwill has been recovered.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss.

n. Provisions and Contingent Liabilities

Provisions represent liabilities of the Company for which the amount or timing is uncertain. Provisions are recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognized as a provision is the best estimate of the expenditure required to settle the the present obligation at the end of the reporting period.

Provisions are measured at the present value of the expected expenditures to settle the obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation, and when the effect of the time value of money is material, using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision during the period to reflect the passage of time is recognized as finance costs.

Provisions for warranty are established based on management's best estimates as to the amounts that could be disbursed based on contract terms, and are typically a percentage of the sales or contract price. Relevant disbursements made by the Company are accounted for by reducing the associated

provision when the claim from the customer is deemed relevant, in accordance with the contract terms and conditions.

Contingent liabilities represent a possible obligation to the Company arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are not entirely within the control of the Company; or a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

o. Leases

Leases are classified as either operating or finance, based on the substance of the transaction at inception of the lease.

An operating lease is a lease in which a significant portion of the risks and rewards of ownership are retained by the lessor. Payments under an operating lease are recognized as an expense on a straight-line basis over the period of the lease. Associated costs, such as maintenance and insurance, are expensed as incurred.

Leases in which substantially all the risks and rewards of ownership are transferred to the Company are classified as finance leases. Assets meeting finance lease criteria are capitalized at the lower of the present value of the related lease payments plus incidental payments or the fair value of the leased asset at the inception of the lease. Minimum lease payments are apportioned between the finance cost and the liability. The finance charge is recognized in profit or loss within finance costs and is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

p. Income Taxes

Income tax expense comprises both current and deferred tax, which is recognized in the consolidated statement of comprehensive income except to the extent it relates to items recognized directly in shareholders' equity. When it relates to the latter, the income tax is recognized directly in shareholders' equity.

Current tax expense is based on the results for the period as adjusted for items that are not taxable or deductible, and is based on tax rates and laws that have been enacted or substantively enacted by the end of the reporting period.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. Current income tax liabilities are established where appropriate on the basis of amounts expected to be paid to the taxing authorities.

Deferred tax is recognized for temporary differences arising between the tax basis of assets and liabilities and their carrying amounts. However, deferred tax is not provided on the initial recognition of goodwill, or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with investments in subsidiaries is not recognized if reversal of these temporary differences can be controlled by the Company and it is probable that reversal will not occur in the foreseeable future. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred tax is calculated, without discounting, using tax rates and laws enacted or substantially enacted at the reporting date in Canada, and which are expected to apply when the related deferred income tax asset is realized or the deferred tax liability is settled.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered. Deferred tax liabilities are always provided for in full.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off the recognized amounts and the deferred taxes relate to the same taxable entity and the same taxation authority.

q. Equity

Share Capital

Share capital represents the amount received for shares issued. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from share capital, net of any tax effects.

If shares are issued when options and warrants are exercised, the share capital account also comprises the compensation costs previously recorded as contributed surplus.

Contributed Surplus and Other Equity

Contributed surplus includes charges related to share options and warrants. When share options are exercised, the related compensation cost is transferred to share capital.

Retained Earnings (Deficit)

Retained earnings include all current and prior period retained profits and losses.

r. Share-Based Payments

The Company offers a share option plan to directors, executive officers, key employees and consultants who provide services to the Company.

All goods and services received in exchange for the grant of any share-based payments are measured at their fair values, unless that fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of goods and services received, it measures their value indirectly by reference to the fair value of the equity instruments granted. For transactions with employees and others providing similar services, the Company measures the fair value of the services received by reference to the fair value of the equity instruments granted.

The fair value at the grant date of share options is determined using the Black-Scholes pricing model and is recognized in the consolidated statement of comprehensive income as a compensation expense using a graded vesting schedule over the vesting period, based on the company's estimate of the number of shares which will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. Any impact arising from revision of the original estimates is recognized in comprehensive income (loss) such that the cumulative compensation expense reflects the revised estimate, with a corresponding adjustment to contributed surplus. No adjustment is made to any expense recognized in prior periods if share options ultimately exercised are different from those estimated on vesting.

Any consideration received by the Company upon the exercise of stock options is credited to share capital and the related amount previously recognized in contributed surplus is transferred to share capital upon the issuance of shares.

s. Pension Benefit Plans

The Company maintains a defined contribution pension plan for employees in which the Company matches on a dollar for dollar basis contributions (up to a maximum of 2-5% of salary, as determined by a formula reflecting an individual's length of tenure and age) made by employees into a registered plan managed by a third-party fund manager. There was no unfunded pension plan liability as at September 30, 2016 or September 30, 2015.

t. Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker who is responsible for allocating resources and assessing performance of the operating segments has been identified as the Chief Executive Officer.

The Company has determined that there are two operating segments – Professional Services and Water Systems.

u. 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.

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.

4. Accounts Receivable

	2016	2015
	$	$
Trade receivables	**4,638,291**	7,662,885
Other receivables	**25,258**	330,464
Allowance for doubtful accounts	**(115,724)**	(766,801)
	4,547,825	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 receivable found to be impaired.

5. Property, Plant & Equipment

All of the Company's property, plant and equipment are pledged as security for the bank loans. Accordingly, there are restrictions on the title of such assets.

	Land	Buildings	Computer hardware	Field equipment	Office furniture & equipment	Leasehold improve-ments	Paving	Vehicles	Total
Cost									
Balance at October 1, 2015	338,248	2,093,431	1,976,636	473,886	741,299	661,590	43,726	203,907	6,532,723
Additions	-	-	14,357	-	-	-	-	-	14,357
Disposals	(72,000)	(300,918)	-	-	-	-	(17,120)	-	(390,038)
Balance at September 30, 2016	**266,248**	**1,792,513**	**1,990,993**	**473,886**	**741,299**	**661,590**	**26,606**	**203,907**	**6,157,042**
Accumulated Depreciation									
Balance at October 1,2015	-	1,063,585	1,950,676	421,370	717,131	611,883	34,024	198,432	4,997,101
Depreciation	-	97,148	12,995	13,361	5,001	38,537	2,186	5,475	174,703
Disposals	-	(153,560)	-	-	-	-	(9,604)	-	(163,164)
Balance at September 30, 2016	**-**	**1,007,173**	**1,963,671**	**434,731**	**722,132**	**650,420**	**26,606**	**203,907**	**5,008,640**
Net book value at September 30, 2016	**266,248**	**785,340**	**27,322**	**39,155**	**19,167**	**11,170**	**-**	**-**	**1,148,402**

	Land	Buildings	Computer hardware	Field equipment	Office furniture & equipment	Leasehold improve-ments	Paving	Vehicles	Total
Cost									
Balance at October 1, 2014	483,248	2,677,986	1,949,544	417,012	716,299	681,968	43,726	203,907	7,173,690
Additions	-	-	27,092	56,874	25,000	-	-	-	108,966
Disposals	(145,000)	(584,555)	-	-	-	(20,378)	-	-	(749,933)
Balance at September 30, 2015	**338,248**	**2,093,431**	**1,976,636**	**473,886**	**741,299**	**661,590**	**43,726**	**203,907**	**6,532,723**
Accumulated Depreciation									
Balance at October 1,2014	-	1,184,144	1,944,611	331,624	668,038	505,248	31,109	152,977	4,817,751
Depreciation	-	116,849	6,065	89,746	49,093	123,441	2,915	45,455	433,564
Disposals	-	(237,408)	-	-	-	(16,806)	-	-	(254,214)
Balance at September 30, 2015	**-**	**1,063,585**	**1,950,676**	**421,370**	**717,131**	**611,883**	**34,024**	**198,432**	**4,997,101**
Net book value at September 30, 2015	**338,248**	**1,029,846**	**25,960**	**52,516**	**24,168**	**49,707**	**9,702**	**5,475**	**1,535,622**

During the year, the Company disposed of property, plant and equipment with a cost of $390,038 (2015 - $749,933), accumulated depreciation of $163,164 (2015 - $254,214) and received proceeds on disposal of $399,750 (2015 - $733,162).

6. Intangible Assets

All of the Company's intangible assets are pledged as security for the bank loans. Accordingly, there are restrictions on the title of such assets.

	Trademarks	Computer Software	Patents	Technology	Customer Lists	Total
Cost						
Balance at October 1, 2015	222,981	888,622	50,855	258,416	771,150	2,192,024
Additions	-	12,320	-	-	-	12,320
Balance at September 30, 2016	222,981	900,942	50,855	258,416	771,150	2,204,344
Accumulated Amortization						
Balance at October 1, 2015	111,338	762,194	16,280	215,345	436,985	1,542,142
Amortization	37,214	62,450	2,991	43,071	154,230	299,956
Balance at September 30, 2016	148,552	824,644	19,271	258,416	591,215	1,842,098
Net book value at September 30, 2016	**74,429**	**76,298**	**31,584**	**-**	**179,935**	**362,246**

	Trademarks	Computer Software	Patents	Technology	Customer Lists	Total
Cost						
Balance at October 1, 2014	222,981	873,610	50,855	258,416	771,150	2,177,012
Additions	-	15,012	-	-	-	15,012
Balance at September 30, 2015	222,981	888,622	50,855	258,416	771,150	2,192,024
Accumulated Amortization						
Balance at October 1, 2014	74,124	660,785	13,290	129,206	288,163	1,165,568
Amortization	37,214	101,409	2,990	86,139	148,822	376,574
Balance at September 30, 2015	111,338	762,194	16,280	215,345	436,985	1,542,142
Net book value at September 30, 2015	**111,643**	**126,428**	**34,575**	**43,071**	**334,165**	**649,882**

7. 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 is to occur once Wasdell Falls Power Corporation has achieved the commencement of operations. Total consideration is to be $465,455, plus 1,500,000 common shares of Coastal Hydro Corporation, a privately owned company. In addition, the Company is required to make a contingent payment to the previous shareholders of OEL Hydrosys, who were also a party to the sale.

At the time of the agreement, the purchasers paid $332,776 in exchange for one half of the Company's interest in Wasdell Falls Power Corporation and the Company revalued its remaining 25% interest at a fair value of $411,478, based on an observed equivalent cash transaction.

In addition, the Company calculated the fair value of the contingent consideration 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 was determined to be $156,282.

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.

The Company's investment in Wasdell Falls Power Corporation is accounted for under the equity method. During the year ended September 30, 2016, the Company recognized its share of the net loss of the investment of $19,843 (2015 - $30,828) and a reversal of impairment loss of $44,849 (2015 – impairment loss of $121,000).

8. Long-term Investment

The Company owns 17,828 Class A shares of Canzone Limited, a private company. This investment is accounted for under the cost method since the investment is an equity instrument with no quoted market price.

9. Goodwill

The goodwill is allocated to the Professional Services cash generating unit ("CGU"), which is the unit expected to benefit from the synergies of the business combinations.

The recoverable amount of the Professional Services CGU has been determined based on a value in use calculation using cash flow projections from the annual financial budgets approved by senior management and the Board of Directors followed by an extrapolation over four further years. The pre-tax discount rate applied to cash flow projections for the Professional Services CGU is 15.0% (2015: 18%) and cash flows are extrapolated using a 2.0% growth rate (2015: 2.0%).

The calculation of value in use is most sensitive to the following assumptions:

- Gross margins
- Discount rates
- Growth rates used

Gross margins – Gross margins are based on average values achieved in the years preceding the beginning of the budget period. There have been no increases reflected for anticipated efficiency improvements.

Discount rates - Discount rates represent the current market assessment of the risks specific to the respective CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Company and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Company's investors.

Growth rates – Growth rates used by management are similar to the rate of inflation in Canada.

The fair value of the Professional Services CGU is higher than its carrying amount, resulting in no impairment being identified as part of the annual impairment test as at September 30, 2016 and September 30, 2015.

10. 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. Part of this loan was used to repay the Company's 9% Convertible Unsecured Debentures in the amount of $1,430,000 (see Note 15).

At September 30, 2016, the Company had drawn $949,691 on its operating demand loan and had no outstanding letters of guarantee. At September 30, 2015, the Company had drawn $1,470,000 on its operating line of credit and had outstanding letters of guarantee of $409,425 which were carved out of the operating line of credit.

At September 30, 2016, the Company held a short term investment of $100,000, in favour of the Company's previous bank and subsequently released on completion of full transition to the Company's current bank. At September 30, 2015, the Company held short term investments in the amount of $409,425 which were held in favour of the bank against the outstanding letters of guarantee.

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 September 30, 2016, the Company is onside with its covenants.

11. Trade and Other Payables

	2016	2015
	$	$
Trade payables	**3,256,661**	4,575,586
Salaries and benefits payable	**662,336**	633,842
Other accrued liabilities and payables	**1,055,767**	1,463,735
	4,974,764	6,673,163

Provisions in the amount of $30,000 (2015 - $30,018) are included in other accrued liabilities and payables and are entirely with respect to product warranty provisions.

As at September 30, 2016, other accrued liabilities and payables includes amounts owing to key management personnel of $89,996 (2015 - $32,539) and directors of $84,062 (2015 – $146,424).

During the year ended September 30, 2016, other accrued liabilities and payables in the amount of $nil (2015 - $110,157) were converted to equity (see Note 17).

As at September 30, 2016 there was $6,071 (2015 - 68,943) owed to government agencies included in other accrued liabilities and payables.

12. Advances

During the year ended September 30, 2015, related party advances in the amount of $105,312 were converted to equity (see Note 17). The remaining advances continue to bear interest at a rate of 7%. There are no fixed terms of repayment.

Effective September 12, 2016, principal repayments of $60,000 have been postponed in favour of the Company's bank. Interest accrued on advances outstanding has not been postponed.

13. Obligations Under Finance Leases

The Company has a finance lease for field equipment which was signed March 1, 2013 and is repayable in 48 monthly installments of principal and interest of $330. The lease bears interest of 29% per annum.

The finance lease is secured by the underlying equipment. As at September 30, 2016, the net carrying amount of equipment under finance lease is $2,635 (2015 - $6,142) and is included as part of field equipment.

September 30, 2016	**Future Minimum Lease Payments $**	**Finance Charges $**	**Present Value of Minimum Lease Payments $**
Within one year	620	58	562
Between one and five years	-	-	-
After five years	-	-	-
Total obligation under finance lease	620	58	562

September 30, 2015	Future Minimum Lease Payments $	Finance Charges $	Present Value of Minimum Lease Payments $
Within one year	4,222	262	3,960
Between one and five years	620	58	562
After five years	-	-	-
Total obligation under finance lease	4,842	320	4,522

14. Long-Term-Debt

	2016 $	2015 $
Term loan, net of deferred financing costs of $52,209, bearing interest at 10%, due September 12 , 2021 (1)	**2,447,791**	-
Mortgage, bearing interest at 7.99%, repayable in monthly principal instalments of $8,083 plus interest, due July 16, 2018, secured by a collateral mortgage on land and building with a carrying value of $306,573 (2015 - $364,927).	**1,009,763**	1,014,239
Mortgage, bearing interest at BDC Floating Base Rate 4.7% as at September 30, 2016(4.7% as at 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 $745,015 (2015 - $776,287).	**596,700**	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.	**6,132**	24,964
Restructured trade debt (2)	**428,244**	439,684
Total	**4,488,630**	**2,423,073**
Current portion of long-term debt	**146,519**	**1,784,655**
Long-term portion of long-term debt	**4,342,111**	**638,418**

Long-term debt balances at September 30, 2016 are due as follows:

2017	146,519
2018	1,057,787
2019	46,800
2020	46,800
2021 and thereafter	3,190,724
	4,488,630

(1) The Company entered into an agreement with a lending 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. Part of this loan was used to repay the Company's Convertible Debentures in the amount of $1,430,000 (see Note 15).

(2) On November 15, 2012, the Company reached an 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, all payments were suspended and the outstanding balances were postponed in favour of the Company's previous bank. Effective September 12, 2016, $364,699 was postponed in favour of the Company's current bank. During the year ended September 30, 2016, $Nil (2015 - $332,002) of this debt was converted to equity (see Note 17). As at September 30, 2016 $145,530 (2015 – $145,530) was due to related parties.

15. Convertible Debenture

On June 27, 2013 the Company completed the private placement of 1,430 unsecured convertible debenture units (the "Units"), for gross proceeds of $1,430,000. Each Unit of the Offering was comprised of a $1,000 convertible debenture (the "Convertible Debentures") and 1,666 one-half common share purchase warrant (each whole warrant, a "Warrant").

The Convertible Debentures were convertible, at the option of the subscriber, at any time prior to the maturity date, into common shares of the Company ("Common Shares") at a conversion price of $0.60 per Common Share representing a conversion rate of approximately 1,666 Common Shares per $1,000 in principal amount of the Convertible Debentures. Holders of the Convertible Debentures also had the option to receive interest payments in cash or, subject to the approval of the TSX Venture Exchange, Common Shares based on the 20-day volume weighted average price, which will not be lower than the Discounted Market Price of the Common Shares (as defined in the TSX Venture Manual), at the time of payment. The Convertible Debentures matured three years from the Closing, and were bearing interest at a rate of 9% per annum, calculated from date of issue, semi-annually in arrears and compounded annually.

Each Warrant entitled the holder to purchase one Common Share at an exercise price of $0.75 per Common Share for a period of two years from the Closing. The Warrants expired unexercised on June 26, 2015.

The Convertible Debentures were determined to be a compound instrument. The initial carrying amount of the financial liability was determined to be $1,234,099 and was based on the fair value of the future interest and principal payments. The residual amount of $195,901 was classified as equity. The Convertible Debentures, net of the equity component and issue costs of $148,533 were accreted using an effective interest rate of 15% over their term, such that the carrying amount would equal the total face value at maturity. During the year, $88,007 (2015 – $110,044) of interest and finance charges were accreted to the convertible debentures and recorded in finance costs on the consolidated statement of comprehensive income.

The Convertible Debentures were repaid in full on September 12, 2016. Between June 27, 2016 and September 12, 2016, the Convertible Debentures bore interest at the rate of 12% per annum.

16. Due to Shareholders

Amounts due to shareholders are non-interest bearing, with no fixed terms of repayment. Additionally, effective September 12, 2016, repayments of $43,803 have been postponed in favour of the Company's bank. During the year ended September 30, 2016, $Nil (2015 – $214,029) was converted to equity (see Note 17).

17. Shareholders' Equity

Share Capital

Authorized

Common Shares

The Company is authorized to issue an unlimited number of Common Shares. The holders of the Company's Common Shares are entitled to dividends as and when declared by the board of directors of the Company, to one vote per share at meetings of shareholders of the Company and, upon liquidation, to receive such assets of the Company as are distributable to the holders of the Common Shares.

Special Shares

The Company is authorized to issue an unlimited number of Special Shares, issuable in series.

Debt Conversion

On September 25, 2015, the Company concluded a debt conversion whereby $892,025 of certain existing debts, which included $112,365 of withholding taxes, was converted into 2,688,484 Common Shares at an agreed upon conversion price of $0.29 per share. The share price on September 25, 2015 was $0.28 per share, resulting in a gain on debt conversion of $26,885. These Common Shares were subject to a hold period which ended January 26, 2016. Share capital increased by $726,629, which is net of share issue costs of $26,146.

Share Options

Activity in the share option plan is summarized as follows:

	For the year ended			
	September 30, 2016		September 30, 2015	
	Number of options #	**Weighted average exercise price $**	Number of options #	Weighted average exercise price $
Outstanding, beginning of year	**2,009,325**	**0.61**	2,081,775	0.59
Granted	**520,000**	**0.25**	-	-
Exercised	**-**	**-**	-	-
Expired	**(119,000)**	**1.00**		
Forfeited	**(592,100)**	**0.51**	(72,450)	0.52
Outstanding, end of year	**1,818,225**	**0.44**	2,009,325	0.61
Exercisable, end of year	**1,186,887**	**0.59**	1,428,253	0.65

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

Share-Based Compensation

The fair value of options vested is recognized as compensation cost.

During the year ended September 30, 2016, the Company issued 520,000 options to purchase Common Shares to officers, directors, employees and consultants. The exercise price of the options ranges from $0.20 to $0.28. All options have a term of 5 years and vest over 3 years. The fair value of options granted during the year was $86,828 (2015 – $Nil).

The fair value of options granted was estimated on the date of grant using the following assumptions:

	2016	2015
Share price at grant date	**$ 0.18 - 0.28**	n/a
Exercise price	**$ 0.20 - 0.28**	n/a
Expected volatity	**111%**	n/a
Expected option life (years)	**3.52**	n/a
Expected dividends	**-**	n/a
Risk-free interest rate	**0.66%**	n/a

During the year ended September 30, 2016, the Company recognized $69,033 (2015 - $135,315) in share based compensation expense.

Warrants

During the year ended September 30, 2015, warrants with an estimated fair value of $37,626 expired unexercised. There are no further warrants outstanding.

18. Income Taxes

Income tax expense recognized in comprehensive loss consists of the following components:

	For the year ended September 30	
	2016	2015
	$	$
Current year	-	-
Over provided in prior years	-	-
	-	-
<u>Deferred income tax expense (recovery)</u>		
Origination and reversal of timing differences	-	-
Total	-	-

The provision for income taxes differs from the result that would be obtained by applying the combined Canadian federal and provincial statutory income tax rates to income before taxes. The reconciliation between the statutory income tax rate and the Company’s effective tax rate of income tax is as follows:

	For the year ended September 30	
	2016	2015
	$	$
Income before tax	588,365	1,015,590
Statutory tax rate	26.76%	26.76%
Expected tax expense	157,446	271,772
Rate differences		-
Changes in temporary differences	(179,690)	(216,901)
Permanent differences and other	-	0
Prior period adjustments	22,244	(54,871)
Total tax expense	-	-
Effective income tax rate	0.00 %	0.00 %

The following is a reconcilation of the deferred income tax assets and liabilities recognized by the Company:

	Opening Balance, September 30, 2015	**Recognized in Income**	**Equity Component**	**Ending Balance, September 30, 2016**
Property, plant and equipment	14,974	(18,723)	-	(3,749)
Intangible assets	-	-	-	-
Investments	-	(2,476)	-	(2,476)
Financing cost	-	6,225	-	6,225
Others	(14,974)	7,335	7,639	-
Total liability	-	(7,639)	7,639	-

	Opening Balance, September 30, 2014	**Recognized in Income**	**Equity Component**	**Ending Balance, September 30, 2015**
Property, plant and equipment	101,247	(86,273)	-	14,974
Intangible assets	(49,588)	49,588	-	-
Investments	(19,445)	19,445	-	-
Financing cost	772	(772)	-	-
Others	(32,986)	7,738	10,274	(14,974)
Total liability	-	(10,274)	10,274	-

As at September 30, 2015, the Company has $9,004,233 (2015- $11,338,722) of timing differences for which no deferred tax asset has been recognized as follows:

	2016	2015
	$	$
Property, plant and equipment	1,402,519	2,411,309
Operating losses	5,052,133	6,572,435
Research and development expenses	2,491,958	2,292,781
Reserves	30,000	30,019
Financing costs	27,623	25,680
Investments	-	6,498
	9,004,233	11,338,722

The Company has the following non-capital losses which are available to reduce income taxes in future periods, for which no deferred tax asset has been recognized in the consolidated statement of financial position, that can be carried to the following years:

2034	991,459
2033	1,754,112
2032	78,399
2031	576,315
2030	779,798
2029	472,337
2028	111,680
2027	288,033
	5,052,133

As at September 30, 2016, the Company had an investment tax credit for an amount of $789,181 (2015 - $789,181) that was not recorded in the consolidated financial statements. This credit can be used against any federal income tax payable and expires in the years 2024 to 2032.

19. Information Included in Consolidated Statements of Comprehensive Income

	For the year ended September 30	
	2016	2015
	$	$
Employee Benefit Expenses		
Salaries and short term benefits	**13,067,439**	11,502,565
Share based compensation cost (Note 17)	**69,033**	135,315
Pensions - defined contribution plans	**329,725**	330,945
Employee group benefit expense	**575,052**	556,507
	14,041,249	12,525,332
Finance Costs		
Convertible debenture	**219,544**	240,769
Restructured debt	**100,759**	99,453
Bank loans and line of credit	**194,452**	103,945
Mortgage	**158,973**	181,890
Bank charges	**29,881**	23,590
Other finance charges	**109,460**	78,943
	813,069	728,590
Other elements of expenses		
Foreign exchange gain	**(24,338)**	(99,638)

20. Changes in Working Capital Balances

	2016	2015
	$	$
Accounts receivable	**2,454,403**	(2,188,091)
Unbilled revenue	**(1,196,564)**	(558,575)
Inventory	**-**	1,549
Prepaid expenses	**(281,227)**	(129,473)
Trade and other payables	**(1,698,399)**	1,424,429
Deferred revenue	**(375,676)**	(406,537)
	(1,097,463)	(1,856,698)

21. Earnings per Share

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

	For the year ended September 30	
	2016	2015
Issued common shares at October 1	**27,880,140**	25,191,656
Effect of shares issued on debt conversion	**-**	44,194
Weighted average number of basic common shares	**27,880,140**	**25,235,850**
Effect of share options on issue	**3,790**	-
Weighted average number of diluted common shares	**27,883,930**	**25,235,850**

Options that were anti-dilutive are not included in the computation of diluted common shares. For the year ended September 30, 2016, 1,638,225 options were excluded from the calculation because they were anti-dilutive (2015 – 2,009,325).

22. Commitments and Contingencies

Future payments required under operating leases that have initial or remaining lease terms in excess of one year at September 30, 2016 are as follows:

	Premises	**Equipment**	**Total**
	$	**$**	**$**
Within one year	530,683	51,228	479,455
Between one and five years	495,910	59,766	436,144
After five years	63,516	-	63,516
	1,090,109	110,994	979,115

The operating leases relate to equipment leases and leases related to properties occupied by the Company. There are no options to purchase the property at the expiry of the lease period.

In the normal course of business, the Company is party to a number of on-going legal claims. Management's opinion is that none of these claims are likely to result in a significant loss to the Company either by virtue of the strength of the Company's legal position or because insurance is in place to cover any exposure. The Company's status in all claims is monitored closely by management

and changes in that status, if any, are recorded in the period when the change triggering the recognition of a liability is known.

23. Segmented Disclosure

Revenue

The Company currently operates under two reportable segments as follows:

	For the year ended September 30	
	2016	2015
	$	$
Professional Services	**21,732,624**	20,315,382
Water Systems	**9,760,971**	13,163,418
	31,493,595	33,478,800

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 year ended September 30	
	2016	2015
	$	$
Canada	**29,687,495**	29,481,133
International	**1,136,815**	3,247,108
United States	**669,285**	750,559
	31,493,595	33,478,800

Of total revenue for the year ended September 30, 2016, approximately 18% (2015 – 9%) was derived from one client in Professional Services and 19% (2015 – 13%) was from one client in Water Systems.

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:

	2016		2015	
	$		$	
	Professional Services	**Water Services**	Professional Services	Water Services
Trade accounts receivable	**3,492,810**	**1,029,757**	4,124,053	2,772,031
Unbilled revenue	**2,598,222**	**1,449,419**	1,590,209	1,260,868
Deferred revenue	**432,197**	**132,428**	512,545	427,754

24. 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 year the Company incurred $107,750 (2015 – $82,000) for amounts owed to directors.

Compensation of Key Management Personnel

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

	For the year ended September 30	
	2016	2015
	$	$
Salaries, short-term benefits and share based compensation	**795,777**	1,060,007
Salaries	**655,000**	893,185
Short term benefits	**131,270**	148,188
Share based compensation	**9,506**	18,634
	795,777	1,060,007

25. Financial Instruments

The following table summarizes information regarding the carrying values of the Company's financial instruments:

Classification	**Measurement**	**Carrying Value Sep 30,2016 $**	**Fair Value Sep 30,2016 $**	Carrying Value Sep 30,2015 $	Fair Value Sep 30,2015 $
Loans and receivables					
Cash	Amortized cost	**314,360**	**314,360**	-	-
Short term investments	Amortized cost	**100,000**	**100,000**	409,425	409,425
Accounts receivable	Amortized cost	**4,547,825**	**4,547,825**	7,226,548	7,226,548
		4,962,185	**4,962,185**	7,635,973	7,635,973
Financial Assets Through Profit and Loss					
Investment held for sale	Fair Value (L1)	-	-	9,372	9,372
		-	-	9,372	9,372
Other Financial Liabilities					
Bank indebtedness	Amortized cost	**556,662**	**556,662**	22,533	22,533
Credit facilities	Amortized cost	-	-	1,470,000	1,470,000
Trade and other payables	Amortized cost	**4,974,764**	**4,974,764**	6,673,163	6,673,163
Advances	Amortized cost	**68,627**	**68,627**	66,582	66,582
Note payable	Amortized cost	-	-	224,320	224,320
Long term debt	Amortized cost	**4,488,630**	**4,488,630**	2,423,073	2,423,073
Convertible debenture	Amortized cost	-	-	1,341,993	1,341,993
Due to shareholders	Amortized cost	**55,502**	**55,502**	55,502	55,502
Contingent consideration	Amortized cost	**156,282**	**156,282**	156,282	156,282
		10,300,467	**10,300,467**	12,433,448	12,433,448

26. Risk Management

The Company is exposed to various risks in relation to financial instruments. The Company's financial assets and liabilities by category are summarized below. The main types of risk are Credit Risk, Market Risk and Liquidity Risk.

The Company's risk management is co-ordinated in close cooperation with the board of directors, and focuses on actively securing the Company's short to medium-term cash flows by minimizing the exposure to financial markets.

The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Company is exposed are described below.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its obligations. The financial instrument that potentially exposes the Company to credit risk is accounts receivable.

The Company has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks. The Company performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectability of its receivables in order to mitigate any possible credit losses.

The Company's management considers that all financial assets which are not impaired or past due for each of the September 30, 2016 and September 30, 2015 reporting dates under review are of good credit quality.

Accounts receivable that are past due and present a potential credit risk are as follows:

	2016	2015
	$	$
Past due 61 to 90 days	**302,156**	568,181
Past due greater than 90 days	**877,070**	1,038,230
Allowance for doubtful accounts	**(115,724)**	(766,801)
	1,063,502	839,610

The continuity of the allowance for doubtful accounts is as follows:

	2016	2015
	$	$
Opening balance	**766,801**	911,559
Bad debt expense provision	**284,686**	581,930
Recoveries	**(173,873)**	(657,850)
Accounts written off	**(761,890)**	(68,838)
Closing balance	**115,724**	766,801

At the end of the fiscal period, two customers (2015 – two customers) accounted for 32% (2015 – 29%) of accounts receivable.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company currently settles all of its financial obligations out of cash and bank indebtedness. The ability to do so relies on the Company collecting its accounts receivable in a timely manner and by maintaining sufficient cash in excess of anticipated needs (see Note 2(a)).

The following table outlines the liquidity risk associated with the Company's payment obligations as at September 30, 2016 and September 30, 2015 respectively.

September 30, 2016		Payment Due			
	Total	**In less than 3 months**	**4 - 12 Months**	**1 - 5 Years**	**Over 5 Years**
	$	**$**	**$**	**$**	**$**
Trade and other payables	4,974,764	3,860,275	786,335	328,154	-
Advances	68,627		8,627	60,000	
Finance lease obligation	560	560			-
Long-term debt	4,488,630	20,864	125,655	3,979,411	362,700
Due to shareholders	55,502	-	-	55,502	-
Contingent consideration	156,282	-	156,282		-
	9,744,365	3,881,699	1,076,899	4,423,067	362,700

September 30, 2015		Payment Due			
	Total	**In less than 3 months**	**4 - 12 Months**	**1 - 5 Years**	**Over 5 Years**
	$	**$**	**$**	**$**	**$**
Credit facilities	1,470,000	1,470,000	-	-	-
Trade and other payables	6,673,163	4,985,701	1,687,462	-	-
Advances	66,582	-	-	66,582	-
Note payable	224,320	-	-	-	224,320
Finance lease obligation	4,842	990	3,232	620	-
Long-term debt	2,504,851	325,618	1,533,283	236,450	409,500
Convertible debenture	1,430,000	-	1,430,000	-	-
Due to shareholders	55,502	-	-	55,502	-
Contingent consideration	156,282	-		156,282	-
	12,585,542	6,782,309	4,653,977	515,436	633,820

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's net earnings or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in interest rates. As at September 30, 2016 the Company had $314,360 in cash, $556,662 in bank indebtedness and $596,700 in long term debt which were floating rate obligations. A 1% increase in interest rates during the reporting period would increase the net loss and reduce equity for the period by approximately $10,000.

Foreign currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in currency exchange rates.

The Company operates internationally and is therefore subject to foreign currency risk as follows:

	September 30, 2016 CAD	**September 30, 2016 US**	September 30, 2015 CAD	September 30, 2015 US
	$	**$**	$	$
Cash	**516,910**	**394,076**	7,347	5,505
Accounts receivable	**354,308**	**270,114**	2,080,994	1,559,381
Accounts payable	**250,262**	**190,792**	925,823	693,761

The Company incurs expenses and earns revenues in Canadian and U.S. dollars. To date the Company has not used foreign currency forward contracts or other hedging strategies to manage its foreign currency exposure, but it endeavours to create natural hedges where there are opportunities to do so.

A 10% strengthening of the US dollar against the Canadian dollar would have increased the net income and increased equity during the reporting period by approximately $50,000.

27. Capital Management

The Company's objective is to maintain a capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management defines capital as comprising the Company's total shareholders' equity, credit facilities, advances and long term debt. In order to maintain or adjust its capital structure, the Company could issue new shares, or obtain new debt. To date, no dividends have been paid to the Company's shareholders and none are planned.

The Company's goal is to achieve a debt to equity ratio not in excess of 2:1. There were no changes in the Company's approach to capital management during the fiscal years ended September 30, 2016 and September 30, 2015.