

# **BluMetric Environmental Inc.**

Consolidated Financial Statements

**September 30, 2017**

(expressed in Canadian dollars)



January 29, 2018

## **Independent Auditor's Report**

**To the Shareholders of  
BluMetric Environmental Inc.**

We have audited the accompanying consolidated financial statements of BluMetric Environmental Inc. and its subsidiaries, which comprise the consolidated statement of financial position as at September 30, 2017, and the consolidated statements of changes in shareholders' equity, net earnings and comprehensive income and cash flows for the year then ended, and the related notes, which comprise 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 auditor's 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 is sufficient and appropriate to provide a basis for our audit opinion.

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**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of BluMetric Environmental Inc. and its subsidiaries as at September 30, 2017, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Emphasis of matter**

Without modifying our opinion, we draw your attention to note 1 to the consolidated financial statements which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt on BluMetric Environmental Inc.'s ability to continue as a going concern.

**Comparative information**

The consolidated financial statements of BluMetric Environmental Inc. and its subsidiaries for the year end September 30, 2016 were audited by another auditor who expressed an unmodified opinion in their report dated January 30, 2017.

*PricewaterhouseCoopers LLP*

**Chartered Professional Accountants, Licensed Public Accountants**

**BluMetric Environmental Inc.**  
Consolidated Statement of Financial Position  
As at September 30, 2017

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(expressed in Canadian dollars)

	2017 \$	2016 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash	22,117	314,360
Short-term investments (note 10)	-	100,000
Accounts receivable (note 4)	4,731,687	4,547,825
Unbilled revenue	3,444,855	4,047,641
Prepaid expenses	418,892	512,806
Property, plant and equipment held for sale (note 5)	253,081	-
Other assets (note 7)	95,000	251,282
	<hr/>	<hr/>
	8,965,632	9,773,914
<b>Property, plant and equipment</b> (note 5)	66,212	1,148,402
<b>Intangible assets</b> (note 6)	105,018	362,246
<b>Long-term investment</b> (note 8)	-	11,085
<b>Goodwill</b> (note 9)	1,592,095	1,592,095
	<hr/>	<hr/>
	<b>10,728,957</b>	<b>12,887,742</b>

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

# BluMetric Environmental Inc.

Consolidated Statement of Financial Position ...continued

As at September 30, 2017

(expressed in Canadian dollars)

	2017 \$	2016 \$
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 10)	536,385	556,662
Trade and other payables (note 11)	3,616,859	4,958,746
Deferred revenue	274,736	564,623
Advances (note 12)	-	8,627
Obligations under finance leases (note 13)	-	562
Current portion of long-term debt (note 14)	3,458,629	146,519
Contingent consideration (note 7)	-	156,282
	<u>7,886,609</u>	<u>6,392,021</u>
<b>Long-term debt</b> (note 14)	364,699	4,358,129
<b>Advances</b> (note 12)	60,000	60,000
<b>Due to shareholders</b> (note 15)	<u>55,502</u>	<u>55,502</u>
	<u>8,366,810</u>	<u>10,865,652</u>
<b>Shareholders' Equity</b>		
<b>Share capital</b> (note 16)	5,356,053	5,356,053
<b>Contributed surplus and other equity</b> (note 16)	598,809	593,119
<b>Deficit</b>	<u>(3,592,715)</u>	<u>(3,927,082)</u>
	<u>2,362,147</u>	<u>2,022,090</u>
	<u>10,728,957</u>	<u>12,887,742</u>
<b>Going concern</b> (note 1)		
<b>Commitments and contingencies</b> (note 21)		

## Approved by the Board

\_\_\_\_\_  
Director  
**Vijay Jog**

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Director  
**Jane Pagel**

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

# BluMetric Environmental Inc.

## Consolidated Statement of Changes in Shareholders' Equity

For the year ended September 30, 2017

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(expressed in Canadian dollars)

	Common shares #	Share capital \$	Contributed surplus and other equity \$	Deficit \$	Total \$
<b>Balance - September 30, 2015</b>	27,880,140	5,356,053	524,086	(4,515,447)	1,364,692
Share-based compensation (note 16)	-	-	69,033	-	69,033
Net earnings and comprehensive income for the year	-	-	-	588,365	588,365
<b>Balance - September 30, 2016</b>	27,880,140	5,356,053	593,119	(3,927,082)	2,022,090
Share-based compensation (note 16)	-	-	5,690	-	5,690
Net earnings and comprehensive income for the year	-	-	-	334,367	334,367
<b>Balance - September 30, 2017</b>	<u>27,880,140</u>	<u>5,356,053</u>	<u>598,809</u>	<u>(3,592,715)</u>	<u>2,362,147</u>

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

# BluMetric Environmental Inc.

## Consolidated Statement of Net Earnings and Comprehensive Income For the year ended September 30, 2017

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(expressed in Canadian dollars)

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
<b>Revenue</b> (note 22)	30,528,483	31,493,595
<b>Cost of goods sold</b> (note 18)	24,089,263	25,145,136
<b>Gross profit</b>	6,439,220	6,348,459
<b>Operating expenses</b>		
Selling, general and administrative (note 18)	5,344,413	5,144,908
Loss (gain) on disposal of property, plant and equipment (note 5)	68,762	(172,876)
Impairment (reversal of impairment) of equity investment (note 7)	-	(44,849)
	5,413,175	4,927,183
<b>Earnings before undernoted items</b>	1,026,045	1,421,276
<b>Share of net loss of an associated company</b> (note 7)	-	(19,843)
<b>Finance costs</b> (note 18)	(691,678)	(813,068)
<b>Net earnings and comprehensive income for the year</b>	334,367	588,365
<b>Earnings per share</b>		
Basic	0.01	0.02
Diluted (note 20)	0.01	0.02
<b>Weighted average number of shares outstanding</b>		
Basic	27,880,140	27,880,140
Diluted (note 20)	27,922,627	27,883,930

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

# BluMetric Environmental Inc.

## Consolidated Statement of Cash Flows

For the year ended September 30, 2017

(expressed in Canadian dollars)

	2017 \$	2016 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net earnings and comprehensive income for the year	334,367	588,365
Non-cash items		
Depreciation of property, plant and equipment (note 5)	120,495	174,703
Amortization of intangible assets (note 6)	257,228	299,956
Loss (gain) on disposal of property, plant and equipment (note 5)	68,762	(172,876)
Impairment (reversal of impairment) of equity investment (note 7)	-	(44,849)
Interest accretion on convertible debenture	-	88,007
Interest accretion on long-term debt	26,264	57,517
Accrued interest on advances	-	4,202
Share of net loss of an associated company (note 7)	-	19,843
Realized gain on investment held for sale	(24,518)	(6,096)
Share-based compensation (note 16)	5,690	69,033
Changes in working capital items (note 19)	(1,118,936)	(1,097,463)
	<u>(330,648)</u>	<u>(19,658)</u>
<b>Investing activities</b>		
Acquisition of property, plant and equipment (note 5)	(13,715)	(14,357)
Proceeds from sale of property, plant and equipment (note 5)	653,567	399,750
Acquisition of intangible assets (note 6)	-	(12,320)
Proceeds on disposal of short-term investments	100,000	409,425
Purchase of short-term investments	-	(100,000)
Proceeds on disposal of investment held for sale	35,603	15,468
	<u>775,455</u>	<u>697,966</u>
<b>Financing activities</b>		
Repayment of advances	(8,627)	(2,157)
Debt financing fees	-	(70,243)
Proceeds from long-term debt	-	2,500,000
Repayment of convertible debentures	-	(1,430,000)
Repayment of long-term debt	(707,584)	(421,717)
Principal payments on finance leases	(562)	(3,960)
Increase (decrease) in use of credit facilities	-	(1,470,000)
	<u>(716,773)</u>	<u>(898,077)</u>
<b>Change in cash and cash equivalents during the year</b>	<u>(271,966)</u>	<u>(219,769)</u>
<b>Bank indebtedness - Beginning of year</b>	<u>(242,302)</u>	<u>(22,533)</u>
<b>Bank indebtedness - End of year</b>	<u>(514,268)</u>	<u>(242,302)</u>
<b>Bank indebtedness is comprised of</b>		
Cash	22,117	314,360
Bank indebtedness	(536,385)	(556,662)
	<u>(514,268)</u>	<u>(242,302)</u>
<b>Supplementary information</b>		
Interest paid - included in operating activities	573,396	551,336

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



# **BluMetric Environmental Inc.**

## Notes to Consolidated Financial Statements

### September 30, 2017

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(expressed in Canadian dollars)

#### **1 Nature of operations and going concern**

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 the following.

- services and solutions: environmental earth sciences and engineering, contaminated site remediation, water resource management, industrial hygiene, occupational health and safety, water and wastewater design-build and pre-engineered solutions

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

#### **Going concern**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to a going concern, which contemplates that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future.

The Company was not in compliance with the fixed charge coverage ratio covenant related to its demand credit facility as at September 30, 2017. The non-compliance was triggered by its mortgage on its office building at 3108 Carp Road coming due on July 16, 2018 and therefore being classified as a current liability as at September 30, 2017. The Company is arranging alternative financing with respect to this mortgage and expects to have a new agreement in place shortly. This situation has created a cross-default with the Company's term loan agreement. Although the Company has received a waiver from its term loan lender with respect to this cross-default, the Company is required to re-classify the five-year term loan as at September 30, 2017 to current liabilities under IFRS.

The Company has been actively addressing its cash flow short-falls through cost control and the sale of non-core assets, as well as the pursuit of new revenue contracts. In addition, the Company entered into new credit and loan arrangements on September 12, 2016, which improved its financial position. 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. Nevertheless, there is no assurance that these ongoing initiatives will continue to be successful.

The Company's ability to continue as a going concern is dependent on its ability to produce sufficient revenues and limit expenses to allow the Company to service its debt and remain in compliance with its 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. These consolidated financial statements do not reflect adjustments in the carrying values of assets and liabilities, the reported revenues and expenses, and the consolidated balance sheet classifications used that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

# **BluMetric Environmental Inc.**

## Notes to Consolidated Financial Statements

### September 30, 2017

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(expressed in Canadian dollars)

## **2 Basis of presentation**

### **Statement of compliance**

These consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee.

### **Authorization of consolidated financial statements**

The consolidated financial statements were approved and authorized for issue by the Board of Directors on January 29, 2018.

### **Presentation and functional currency**

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

### **Basis of measurement**

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

### **Critical accounting judgments, estimates and assumptions**

The preparation of 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 period presented.

- Judgments

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

- 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 to 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.

- Percentage of completion of fixed price 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.

**BluMetric Environmental Inc.**  
Notes to Consolidated Financial Statements  
**September 30, 2017**

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(expressed in Canadian dollars)

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 costs incurred and the estimated costs to complete the related contract.

- 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.

- 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.

- 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.

- Allowance for doubtful accounts

At each reporting date, 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, taking into consideration customer creditworthiness, current economic trends and past experience. If future collections and trends differ from estimates, future earnings will be affected.

- Impairment assessments

Long-lived assets, such as property, plant and equipment and intangible assets, subject to depreciation and amortization, are tested for recoverability when there is an indication that their carrying value may not be recoverable. Goodwill is tested at least annually. In many cases, determining if there are any facts and circumstances indicating an impairment loss or the reversal of an impairment loss is a subjective process involving judgment and a number of estimates and assumptions. The carrying value of a long-lived asset is not recoverable when it exceeds the recoverable amount, which is 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

**BluMetric Environmental Inc.**  
Notes to Consolidated Financial Statements  
**September 30, 2017**

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(expressed in Canadian dollars)

specific risk factors. The actual results may vary and cause significant adjustments to the Company's assets within the next financial year.

- Share-based compensation

The estimation of share-based payment 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 and, the expected life of share options granted. The model used by the Company is the Black-Scholes option pricing model.

### **3 Summary of significant accounting policies**

#### **Principles of consolidation**

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

#### **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 is described below.

- 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. Cash, short-term investments, and accounts receivable are classified as loans and receivables.
- Financial liabilities are subsequently measured at amortized cost using the effective interest method. The Company's financial liabilities include bank indebtedness, trade and other payables, advances, obligations under finance leases, long-term debt and due to shareholders.
- Financial liabilities at fair value through profit or loss are subsequently measured at fair value and changes therein are recognized in consolidated statement of net earnings and comprehensive income. The contingent liability belongs in this category.

# **BluMetric Environmental Inc.**

## Notes to Consolidated Financial Statements

September 30, 2017

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(expressed in Canadian dollars)

- Investments in securities are usually classified as available for sale. They are accounted for at fair value if reliably measurable, with unrealized gains and losses included in other comprehensive income, except for foreign exchange gains and losses on monetary investments, which are recognized in earnings. Equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recorded at cost. Impairment charges are recognized in profit or loss. The Company doesn't have any financial instruments in this category.

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 net earnings and 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 or finance income, except for impairment of accounts receivable, which is presented within general and administrative expenses.

### **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 - unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 - 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 - 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).

### **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 year-end date are recognized in profit or loss.

# **BluMetric Environmental Inc.**

## Notes to Consolidated Financial Statements

September 30, 2017

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(expressed in Canadian dollars)

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.

### **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-materials 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 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.

### **Basic and diluted earnings per share**

The basic earnings per share is calculated on the basis of net earnings attributable to the shareholders of the Company divided by the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated using the treasury stock method, giving effect to the potential dilution that

**BluMetric Environmental Inc.**  
Notes to Consolidated Financial Statements  
September 30, 2017

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(expressed in Canadian dollars)

would occur if securities or other contracts to issue common shares were exercised or converted into common shares.

**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 updates the remaining useful lives as required at least annually.

Depreciation is calculated on a straight-line basis to depreciate 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 net earnings and comprehensive income.

**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.

**BluMetric Environmental Inc.**  
Notes to Consolidated Financial Statements  
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(expressed in Canadian dollars)

**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 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 cash flows (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 or cash generating unit 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 net earnings and 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 net earnings and comprehensive income.

**Assets held for sale**

Non-current assets classified as held for sale are presented separately and are measured at the lower of their carrying amounts immediately prior to their classification as held for sale and their fair value less costs to sell.

**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 the cash generating 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 cash generating unit and then to the other assets of the cash generating unit on a pro rata basis of the carrying amount of each asset. The recoverable amount is the greater of its value in use and its fair value less cost 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 the value of goodwill has been recovered.



**BluMetric Environmental Inc.**  
Notes to Consolidated Financial Statements  
**September 30, 2017**

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(expressed in Canadian dollars)

**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 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.

The Company provides warranties on goods delivered to customers. These provisions are established based on management's best estimates as to the amounts that could be disbursed to remedy a potential defect with the equipment 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.

**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.

# **BluMetric Environmental Inc.**

## Notes to Consolidated Financial Statements

### **September 30, 2017**

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(expressed in Canadian dollars)

#### **Income taxes**

Income tax expense comprises both current and deferred tax, which is recognized in the consolidated statement of net earnings and 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 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 substantively 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.

#### **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.

# **BluMetric Environmental Inc.**

## Notes to Consolidated Financial Statements

September 30, 2017

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(expressed in Canadian dollars)

- 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 (deficit) include all current and prior period retained profits and losses.

### **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 option pricing model and is recognized in the consolidated statement of net earnings and 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 based on actual forfeitures. Any impact arising from revision of the original estimates is recognized in comprehensive income 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 on the exercise of stock options is credited to share capital and the related amount previously recognized in contributed surplus is transferred to share capital on the issuance of shares.

### **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% to 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, 2017 or September 30, 2016.

# **BluMetric Environmental Inc.**

## Notes to Consolidated Financial Statements

### September 30, 2017

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(expressed in Canadian dollars)

#### **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 the performance of the operating segments has been identified as (collectively) the Chief Executive Officer, the Chief Financial Officer and the Board of Directors.

During the year, the Company changed the nature and extent of the information provided to the chief operating decision maker for purposes of evaluating performance and allocating resources. As a result, the Company has determined that it now has one reportable segment, being the Company taken as a whole. In prior years, the Company's internal management structure and practices were such that it had two segments, which are Professional Services and Water Solutions. Segment information included in these consolidated financial statements for the year ended September 30, 2016 has been revised in order to be consistent with the current year's presentation.

#### **Future applicable accounting standards**

- Accounting standards issued but not yet applied

At the date of authorization of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements.

- 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 is in the process of evaluating the impact of this new standard. However, management expects there to be a significant impact on the calculation and potentially the amount of provisions for bad debts using the new expected loss model, while there are no significant impacts expected with respect to hedging and classification of financial instruments.

**BluMetric Environmental Inc.**  
Notes to Consolidated Financial Statements  
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(expressed in Canadian dollars)

- 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 is in the process of evaluating the impact of this new standard on its consolidated financial statements.

**4 Accounts receivable**

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Trade receivables	4,897,316	4,638,291
Other receivables	3,248	25,258
Allowance for doubtful accounts	(168,877)	(115,724)
	<u>4,731,687</u>	<u>4,547,825</u>

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.

**BluMetric Environmental Inc.**  
Notes to Consolidated Financial Statements  
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(expressed in Canadian dollars)

**5 Property, plant and equipment**

All of the Company's property, plant and equipment are pledged as security for the bank loans (notes 10 and 14). Accordingly, there are restrictions on the title of such assets.

	<b>2017</b>								
	Land \$	Buildings \$	Computer hardware \$	Field equipment \$	Office furniture and equipment \$	Leasehold improve- ments \$	Paving \$	Vehicles \$	Total \$
<b>Cost</b>									
Balance - October 1, 2016	266,248	1,792,513	1,990,993	473,886	741,299	661,590	26,606	203,907	6,157,042
Additions	-	-	8,350	-	5,365	-	-	-	13,715
Disposals	(200,375)	(625,424)	(2,123)	-	-	-	-	(32,412)	(860,334)
Reclassified to assets held for sale	(65,873)	(1,167,089)	-	-	-	(534,642)	(26,606)	-	(1,794,210)
Balance - September 30, 2017	-	-	1,997,220	473,886	746,664	126,948	-	171,495	3,516,213
<b>Accumulated depreciation</b>									
Balance - October 1, 2016	-	1,007,173	1,963,671	434,731	722,132	650,420	26,606	203,907	5,008,640
Depreciation	-	76,945	16,005	11,375	5,000	11,170	-	-	120,495
Disposals	-	(104,237)	(1,356)	-	-	-	-	(32,412)	(138,005)
Reclassified to assets held for sale	-	(979,881)	-	-	-	(534,642)	(26,606)	-	(1,541,129)
Balance - September 30, 2017	-	-	1,978,320	446,106	727,132	126,948	-	171,495	3,450,001
Net book value - Balance - September 30, 2017	-	-	18,900	27,780	19,532	-	-	-	66,212

**BluMetric Environmental Inc.**  
Notes to Consolidated Financial Statements  
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(expressed in Canadian dollars)

	<b>2016</b>								
	<b>Land \$</b>	<b>Buildings \$</b>	<b>Computer hardware \$</b>	<b>Field equipment \$</b>	<b>Office furniture and equipment \$</b>	<b>Leasehold improve- ments \$</b>	<b>Paving \$</b>	<b>Vehicles \$</b>	<b>Total \$</b>
<b>Cost</b>									
Balance - 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)
<b>Balance - September 30, 2016</b>	<b>266,248</b>	<b>1,792,513</b>	<b>1,990,993</b>	<b>473,886</b>	<b>741,299</b>	<b>661,590</b>	<b>26,606</b>	<b>203,907</b>	<b>6,157,042</b>
<b>Accumulated depreciation</b>									
Balance - 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)
<b>Balance - September 30, 2016</b>	<b>-</b>	<b>1,007,173</b>	<b>1,963,671</b>	<b>434,731</b>	<b>722,132</b>	<b>650,420</b>	<b>26,606</b>	<b>203,907</b>	<b>5,008,640</b>
<b>Net book value - Balance - September 30, 2016</b>	<b>266,248</b>	<b>785,340</b>	<b>27,322</b>	<b>39,155</b>	<b>19,167</b>	<b>11,170</b>	<b>-</b>	<b>-</b>	<b>1,148,402</b>

During the year, the Company disposed of property, plant and equipment with a cost of \$860,334 (2016 - \$390,038), accumulated depreciation of \$138,005 (2016 - \$163,164) and received proceeds on disposal of \$653,685 (2016 - \$399,750).

On September 28, 2017, the Company decided to sell its office building at 3108 Carp Road in Ottawa and has reclassified the land, building, leasehold improvements and paving from non-current assets to assets held for sale. The carrying amount of the assets is \$253,081 and the estimated fair value less costs to sell is \$1,500,000 based on an independent appraisal.

**BluMetric Environmental Inc.**  
Notes to Consolidated Financial Statements  
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(expressed in Canadian dollars)

**6 Intangible assets**

All of the Company's intangible assets are pledged as security for the bank loans (notes 10 and 14). Accordingly, there are restrictions on the title of such assets.

	<b>2017</b>					
	<b>Trademarks</b>	<b>Computer software</b>	<b>Patents</b>	<b>Technology</b>	<b>Customer lists</b>	<b>Total</b>
	\$	\$	\$	\$	\$	\$
Cost						
Balance - October 1, 2016	222,981	900,942	50,855	258,416	771,150	2,204,344
Additions	-	-	-	-	-	-
Balance - September 30, 2017	222,981	900,942	50,855	258,416	771,150	2,204,344
Accumulated amortization						
Balance - October 1, 2016	148,552	824,644	19,271	258,416	591,215	1,842,098
Amortization	37,214	62,793	2,991	-	154,230	257,228
Balance - September 30, 2017	185,766	887,437	22,262	258,416	745,445	2,099,326
Net book value -September 30, 2017	37,215	13,505	28,593	-	25,705	105,018

	<b>2016</b>					
	<b>Trademarks</b>	<b>Computer software</b>	<b>Patents</b>	<b>Technolog</b>	<b>Customer lists</b>	<b>Total</b>
	\$	\$	\$	y	\$	\$
	\$	\$	\$	\$	\$	\$
Cost						
Balance - October 1, 2015	222,981	888,622	50,855	258,416	771,150	2,192,024
Additions	-	12,320	-	-	-	12,320
Balance - September 30, 2016	222,981	900,942	50,855	258,416	771,150	2,204,344
Accumulated amortization						
Balance - 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 - September 30, 2016	148,552	824,644	19,271	258,416	591,215	1,842,098
Net book value - September 30, 2016	74,429	76,298	31,584	-	179,935	362,246



**BluMetric Environmental Inc.**  
Notes to Consolidated Financial Statements  
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(expressed in Canadian dollars)

**7 Other assets**

During the year ended November 30, 2011, the Company entered into an agreement to sell its interest in Wasdell Falls Power Corporation (Wasdell Falls) for total cash consideration of \$465,455, plus 1,500,000 shares of Coastal Hydropower Corporation (Coastal), a privately owned company. The sale involved three transaction steps, the last of which was to occur once Wasdell Falls had achieved commencement of operations. This occurred during the quarter ended March 31, 2016.

At the second transaction step, the Company revalued its remaining 25% interest at a fair value based on an observed equivalent cash transaction. The Company is now in the process of completing the final step of the sale transaction, which requires the transfer of the Company's remaining shares in Wasdell Falls, for cash consideration of \$95,000, as well as the 1,500,000 shares of Coastal. During the year ended September 30, 2017, the Company learned that Coastal is no longer active. As a result, the fair value of the Coastal shares is considered \$nil and an impairment loss of \$156,282 was taken during the year ended September 30, 2017 (2016 - reversal of impairment loss of \$44,849) to reduce the carrying value of the investment to the \$95,000 cash consideration that will be received.

The Company must transfer 50% of the Coastal shares it receives on closing, or 750,000 shares, to the previous shareholders of OEL Hydrosys, who were also party to the sale. The obligation to transfer the shares was recorded as a contingent consideration and a discounted cash flow method was used to determine the associated fair value. As a result of Coastal now being inactive, a fair value adjustment of \$156,282 (2016 - \$nil) has been recorded against the contingent consideration and the fair value is now determined to be \$nil (2016 - \$156,282).

The impairment of the investment and the fair value adjustment to the contingent liability have both been included in Impairment (reversal of impairment) of equity investment in the consolidated statement of net earnings and comprehensive income.

During the year ended September 30, 2017, the Company recognized its share of the net loss of its investment of \$nil (2016 - \$19,843) and the reversal of an impairment loss of \$nil (2016 - reversal of impairment loss of \$44,849).

**8 Long-term 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 were sold on July 11, 2017 for proceeds of \$17,505 and recognized a gain on sale of \$11,962.

**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 prior years' 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 for the Company's 2018 fiscal year as approved by senior management and the Board of Directors followed by an extrapolation over four further

# **BluMetric Environmental Inc.**

## Notes to Consolidated Financial Statements

### September 30, 2017

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(expressed in Canadian dollars)

years, with a terminal value. The pre-tax discount rate applied to cash flow projections for the Professional Services CGU is 15% (2016 - 15.0%) and cash flows are extrapolated using a 2.0% (2016 - 2.0%) growth rate.

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 as at September 30, 2017 (2016 - higher) and as such, \$nil impairment has been identified as part of the annual impairment test (2016 - \$nil).

## **10 Credit facilities**

The Company's short-term credit facilities consist of an operating demand loan in the amount of \$2,000,000 with a \$500,000 sublimit for letters of credit. The facility carries a floating interest at prime plus 2.25%, is collateralized by a first ranking general security agreement over all of the Company's present and future assets, and is subject to margining based on the amounts of eligible accounts receivable. Each letter of credit must be 100% guaranteed in favor of the bank through a separate program provided by the Export Development Corporation. This replaces the Company's previous line of credit, which consisted of an operating line of credit in the amount of \$2,000,000 at a floating rate of prime plus 3.50%. As at September 30, 2017, the effective interest rate under this facility was 5.45% (2016 - 6.20%).

The Company also has a corporate credit card facility in the amount of \$165,000.

As at September 30, 2017, the Company had drawn \$510,218 on its operating demand loan (2016 - \$949,691) and it had drawn \$199,211 in outstanding letters of guarantee (2016 - \$nil). The letters of guarantee expire on July 26, 2018.

As at September 30, 2016, the Company held a short-term investment in the amount of \$100,000 in favour of the Company's previous bank, as collateral for the operating line of credit. The requirement to maintain this collateral was subsequently released on termination of the operating line of credit with the Company's former bank.

**BluMetric Environmental Inc.**  
Notes to Consolidated Financial Statements  
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(expressed in Canadian dollars)

The Company has certain covenants in accordance with its short-term credit facilities. As at September 30, 2017, the Company was in default of one of its covenants with respect to its fixed charge coverage ratio.

**11 Trade and other payables**

	2017 \$	2016 \$
Trade payables	2,261,893	3,256,661
Salaries and benefits payable	644,012	662,336
Other accrued liabilities and payables	710,954	1,039,749
	<u>3,616,859</u>	<u>4,958,746</u>

Provisions include provisions for contract disputes and warranty provisions. Provisions are included in other accrued liabilities and payables. As at September 30, 2017, the Company had \$nil (2016 - \$200,000) in provisions for contract disputes and \$nil (2016 - \$30,000) of warranty provisions.

As at September 30, 2017, other accrued liabilities and payables include amounts owing to key management personnel of \$2,000 (2016 - \$89,996) and directors of \$11,333 (2016 - \$84,062).

As at September 30, 2017, there was \$292,282 (2016 - \$6,071) owed to government agencies included in other accrued liabilities and payables.

**12 Advances**

Effective September 12, 2016, principal repayments of \$60,000 owed to shareholders have been postponed in favour of the Company's bank. The advances continue to bear interest at a rate of 7% with no fixed terms of repayment. Interest on advances outstanding has not been postponed.

**13 Obligations under finance leases**

The Company had a finance lease for field equipment, which was signed March 1, 2013 and was repayable in 48 monthly instalments of principal and interest of \$330. The lease bore interest at 29% per annum and was secured by the underlying equipment.

As at September 30, 2017, the remaining obligation under the lease is \$nil (2016 - \$562) and the net carrying amount of equipment under finance lease, included as part of field equipment, is \$nil (2016 - \$2,635).

**BluMetric Environmental Inc.**  
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**14 Long-term debt**

	2017 \$	2016 \$
Term loan, net of deferred financing costs of \$44,629 (2016- \$52,209), bearing interest at 10%, due in one instalment on September 12, 2021 (a)	2,455,371	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 \$253,081 (2016 - \$306,573)	1,003,258	1,009,763
Mortgage, bearing interest at BDC floating base rate (4.6% as at September 30, 2016) plus 2.0%; repaid in full July 4, 2017	-	596,700
Ford Credit loan bearing interest at prime, payable in monthly instalments of \$3,190; repaid in full in May 2017	-	6,132
Restructured trade debt (b)	364,699	444,262
	<u>3,823,328</u>	<u>4,504,648</u>
Less: Current portion	3,458,629	146,519
	<u>364,699</u>	<u>4,358,129</u>

- a) 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. 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% of gross revenue in excess of that amount. As at September 30, 2017 \$106,254 (2016 - \$nil) was accrued in trade and other payables with respect to these royalties.

The Company has certain covenants in accordance with this term loan, as well as cross-default provisions with the Company's short-term credit facility arrangement. As at September 30, 2017, the Company was in compliance with its covenants under the term loan agreement. However, the Company is currently in breach of the fixed charge coverage ratio covenant under its short-term credit facilities (see note 10). As a result of this breach, and the cross-default provisions, the entire amount of the term loan has been included in the current portion of long-term debt. The Company has received a waiver, subsequent to September 30, 2017, from its lender of the cross-default provision of the term loan.

- b) 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. The agreement required 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 would 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.

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Long-term debt balances at as September 30, 2017, excluding \$364,699 in restructured trade debt which is postponed in favour of the Company's current bank, are due as follows:

	\$
2018	3,458,629
2019	-
2020	-
2021	-
2022 and thereafter	-
	<hr/>
	3,458,629
	<hr/>

**15 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.

**16 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, on 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.

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**Share options**

Activity in the share option plan is summarized as follows:

	2017		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	180,000	0.28	520,000	0.25
Exercised	-	-	-	-
Expired	(326,000)	0.58	(119,000)	1.00
Forfeited	(494,850)	0.37	(592,100)	0.51
Outstanding - End of year	1,177,375	0.41	1,818,225	0.44
Exercisable- End of year	817,375	0.47	1,186,887	0.59

Information about stock options outstanding as at September 30, 2017 is as follows:

Grant price range	Awards outstanding			Awards exercisable		
	Quantity	Remaining contractual life	Exercise Price \$	Quantity	Remaining contractual life	Exercise Price \$
0.10 - 0.20	70,000	3.50	0.20	23,333	3.50	0.20
0.21 - 0.30	260,000	3.51	0.26	66,667	3.09	0.28
0.31 - 0.40	120,000	4.50	0.32	-	-	-
0.41 - 0.50	727,375	1.08	0.50	727,375	1.08	0.50
	1,177,375	2.11	0.41	817,375	1.31	0.47

**Share-based compensation**

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

During the year ended September 30, 2017, the Company issued 180,000 options to directors to purchase common shares. The exercise price of the options ranges from \$0.21 to \$0.32. All options have a term of five years and vest over three years. The fair value of options granted during the year was \$37,434 (2016 - \$86,828) resulting in a weighted average grant date fair value of \$0.28 per option (2016 - \$0.17).

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

	<b>2017</b>	<b>2016</b>
Exercise price	\$0.21 - \$0.32	\$0.20 - \$0.28
Expected volatility	110%	111%
Expected option life (years)	3.37	3.52
Expected dividends	-	-
Risk-free interest rate	1.44%	0.66%

During the year ended September 30, 2017, the Company recognized \$5,690 (2016 - \$69,033) in share-based compensation expense.

**17 Income taxes**

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 income taxes. The reconciliation between the statutory income tax rate and the Company's effective rate of income tax is as follows:

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Earnings before income taxes	334,367	588,365
Statutory tax rate	26.56%	26.76%
Expected income tax expense	88,808	157,446
Rate differences		
Changes in temporary differences	(79,762)	(179,690)
Permanent differences and other	-	-
Prior period adjustments	(9,046)	22,244
Total tax expense	-	-
Effective income tax rate	0.00	0.00%

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

	<b>2017</b>			
	<b>Balance - beginning of year</b>	<b>Recognized in income</b>	<b>Equity component</b>	<b>Balance - end of year</b>
	\$	\$	\$	\$
Property, plant and equipment	(3,749)	5,489	-	1,740
Investments	(2,476)	19	-	(2,457)
Financing cost	6,225	(5,508)	-	717
Other	-	(5,423)	5,423	-
	-	(5,423)	5,423	-
	<b>2016</b>			
	<b>Balance - beginning of year</b>	<b>Recognized in income</b>	<b>Equity component</b>	<b>Balance - end of year</b>
	\$	\$	\$	\$
Property, plant and equipment	14,974	(18,723)	-	(3,749)
Investments	-	(2,476)	-	(2,476)
Financing cost	-	6,225	-	6,225
Other	(14,974)	7,335	7,639	-
	-	(7,639)	7,639	-

As at September 30, 2017, the Company has \$8,708,631 (2016 - \$9,004,233) of timing differences for which no deferred tax asset has been recognized as follows:

	<b>2017</b>	<b>2016</b>
	\$	\$
Property, plant and equipment	1,388,130	1,402,519
Operating losses	4,723,469	5,052,133
Research and development expenses	2,491,958	2,491,958
Investment	68,888	-
Reserves	-	30,000
Financing costs	36,186	27,623
	<b>8,708,631</b>	<b>9,004,233</b>



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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	71,049
	<u>4,723,469</u>

As at September 30, 2017, the Company had an investment tax credit in the amount of \$789,181 (2016 - \$789,181) which 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.

**18 Other expense items**

	2017 \$	2016 \$
Employee benefit expenses		
Salaries and short-term benefits	12,714,005	13,067,439
Share-based compensation cost (note 17)	5,690	69,033
Pensions - defined contribution plans	326,429	329,725
Employee group benefit	642,135	575,052
	<u>13,688,259</u>	<u>14,041,249</u>
Finance costs		
Convertible debenture	-	219,544
Restructured debt	25,528	100,759
Term loans, bank loans and line of credit	411,856	194,452
Mortgage	131,822	158,973
Bank charges	45,033	29,881
Other finance charges	77,439	109,460
	<u>691,678</u>	<u>813,069</u>
Other elements of expenses		
Foreign exchange (gain) loss	1,038	(24,338)
	<u>1,038</u>	<u>(24,338)</u>

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**19 Changes in working capital balances**

	2017 \$	2016 \$
Accounts receivable	(183,862)	2,454,403
Unbilled revenue	602,786	(1,196,564)
Prepaid expenses	93,914	(281,227)
Trade and other payables	(1,341,887)	(1,698,399)
Deferred revenue	(289,887)	(375,676)
	<u>(1,118,936)</u>	<u>(1,097,463)</u>

**20 Earnings per share**

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

	2017	2016
Issued common shares as at October 1	27,880,140	27,880,140
Weighted average number of basic common shares	27,880,140	27,880,140
Effect of share options on issuance	42,487	3,790
Weighted average number of diluted common shares	<u>27,922,627</u>	<u>27,883,930</u>

Options that were anti-dilutive are not included in the computation of diluted common shares. For the year ended September 30, 2017, 937,375 options were excluded from the calculation because they were anti-dilutive (2016 - 1,638,225).

**21 Commitments and contingencies**

Future payments required under operating leases that have initial or remaining lease terms in excess of one year as at September 30, 2017 are as follows:

	Premises \$	Equipment \$	Total \$
Within one year	597,192	39,035	636,227
Between one and five years	1,639,107	136,548	1,775,655
After five years	170,456	-	170,456
	<u>2,406,755</u>	<u>175,583</u>	<u>2,582,338</u>

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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 ongoing 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.

## 22 Segmented disclosure

### Revenue

The Company currently operates under one reportable segment

### Geographical segmentation

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

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

	2017 \$	2016 \$
Canada	29,822,688	29,687,495
International	662,825	1,136,815
United States	42,970	669,285
	<u>30,528,483</u>	<u>31,493,595</u>

Of total revenue for the year ended September 30, 2017, approximately 40% (2016 - 39%) was derived from two clients, both of which account for over 10% of total revenue.

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

## 23 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 on by the parties. During the year, the Company incurred \$94,000 (2016 - \$107,750) for amounts owed to directors.

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**Compensation of key management personnel**

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

	2017 \$	2016 \$
Salaries	592,500	655,000
Short-term benefits	117,631	131,270
Share-based compensation	784	9,506
	710,915	795,776

**24 Financial instruments**

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

Classification	Measurement	2017		2016	
		Carrying value \$	Fair value \$	Carrying value \$	Fair value \$
Loans and receivables					
Cash	amortized cost	22,117	22,117	314,360	314,360
Short-term investments	amortized cost	-	-	100,000	100,000
Accounts receivable	amortized cost	4,731,687	4,731,687	4,547,825	4,547,825
Other assets	amortized cost	95,000	95,000	251,282	251,282
		4,848,804	4,848,804	5,213,467	5,213,467
Other financial liabilities					
Bank indebtedness	amortized cost	536,385	536,385	556,662	556,662
Trade and other payables	amortized cost	3,616,859	3,616,859	4,958,746	4,958,746
Advances	amortized cost	60,000	60,000	68,627	68,627
Contingent consideration	fair value	-	-	156,282	156,282
Long-term debt	amortized cost	3,823,328	3,823,328	4,504,648	4,504,648
Due to shareholders	amortized cost	55,502	55,502	55,502	55,502
		8,092,074	8,092,074	10,300,467	10,300,467

**25 Risk management**

The Company is exposed to various risks in relation to its 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 coordinated 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.

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The Company does not actively engage in the trading of financial instruments for speculative purposes nor does it write options.

**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 primary 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 collectibility of its receivables in order to mitigate any possible credit losses.

The Company's management considers all financial assets, which are not impaired or past due for each of the September 30, 2017 and September 30, 2016 reporting dates are of good credit quality.

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

	2017 \$	2016 \$
Past due 61 to 90 days	129,777	302,156
Past due greater than 90 days	844,914	877,070
Allowance for doubtful accounts	(168,877)	(115,724)
	<u>805,814</u>	<u>1,063,502</u>

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

	2017 \$	2016 \$
Balance - Beginning of year	115,724	766,801
Bad debt expense provision	303,512	284,686
Recoveries	(127,633)	(173,873)
Accounts written off	(122,726)	(761,890)
	<u>168,877</u>	<u>115,724</u>

At the end of the year, five customers (2016 - two customers) accounted for 36% (2016 - 32%) of accounts receivable.

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**Liquidity risk**

Liquidity risk is the risk the Company may 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 1).

The following table outlines the liquidity risk associated with the Company's payment obligations as at September 30, 2017 and September 30, 2016, respectively.

	<b>2017</b>				
	<b>Total</b>	<b>Less than</b>	<b>4 - 12</b>	<b>1 - 5</b>	<b>Over 5</b>
	<b>\$</b>	<b>3 months</b>	<b>months</b>	<b>years</b>	<b>years</b>
		<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Trade and other payables	3,616,859	2,876,582	740,277	-	-
Advances	60,000	-	-	60,000	-
Long-term debt	3,823,328	2,459,783	998,846	364,699	-
Due to shareholders	55,502	-	-	55,502	-
	<b>7,555,689</b>	<b>5,336,365</b>	<b>1,739,123</b>	<b>480,201</b>	<b>-</b>
	<b>2016</b>				
	<b>Total</b>	<b>Less than</b>	<b>4 - 12</b>	<b>1 - 5</b>	<b>Over 5</b>
	<b>\$</b>	<b>3 months</b>	<b>months</b>	<b>years</b>	<b>years</b>
		<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Trade and other payables	4,958,746	3,860,275	786,335	312,136	-
Advances	68,627	-	8,627	60,000	-
Finance lease obligation	562	562	-	-	-
Long-term debt	4,504,648	20,864	125,655	3,995,429	362,700
Due to shareholders	55,502	-	-	55,502	-
	<b>9,588,085</b>	<b>3,881,701</b>	<b>920,617</b>	<b>4,423,067</b>	<b>362,700</b>

**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 the fair value or future cash flows of financial instruments will fluctuate because of changes in interest rates. As at September 30, 2017, the Company had \$22,117 in cash and \$536,385 in bank indebtedness, which were floating rate obligations. A 1% increase in interest rates during the reporting period would decrease net earnings and equity for the period by approximately \$5,000.

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- Foreign currency risk

Currency risk is the risk 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:

	2017		2016	
	CA \$	US \$	CA \$	US \$
Cash	-	-	516,910	394,076
Accounts receivable	280,313	224,610	354,308	270,114
Bank indebtedness	26,167	20,967	-	-
Trade and other payables	2,346	1,880	250,262	190,792

The Company incurs expenses and earns revenues in Canadian and US dollars. To date the Company has not used foreign currency forward contracts or other hedging strategies to manage its foreign currency exposure.

A 10% strengthening of the US dollar against the Canadian dollar would have increased the net earnings and increased equity during the reporting period by approximately \$25,000.

## 26 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 may issue or repurchase share capital, or obtain or reduce long-term debt. To date, no dividends have been paid to the Company's shareholders.

There were no changes in the Company's approach to capital management during the year ended September 30, 2017 (2016 - no change).

## 27 Subsequent events

On October 23, 2017, the Company concluded a debt conversion whereby \$122,793 of certain existing debt was converted into 511,638 common shares at an agreed on conversion price of \$0.24 per share. The share price on October 23, 2017 was \$0.22 per share, resulting in a gain on debt conversion of \$10,233. These common shares are subject to a hold period ending February 25, 2018.