

BluMetric Environmental Inc.

Consolidated Financial Statements

September 30, 2018

(expressed in Canadian dollars)



January 28, 2019

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 subsidiary, which comprise the consolidated statements of financial position as at September 30, 2018 and September 30, 2017 and the consolidated statements of changes in shareholders' equity, net earnings and comprehensive income and cash flows for the years ended September 30, 2018 and September 30, 2017, 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 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 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP
99 Bank Street, Suite 710, Ottawa, Ontario, Canada K1P 1E4
T: +1 613 237 3702, F: +1 613 237 3963



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of BluMetric Environmental Inc. and its subsidiary as at September 30, 2018 and September 30, 2017 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

BluMetric Environmental Inc.
Consolidated Statement of Financial Position
As at September 30, 2018

(expressed in Canadian dollars)

	2018 \$	2017 \$
Assets		
Current assets		
Cash	-	22,117
Accounts receivable (note 4)	5,307,302	4,731,687
Unbilled revenue	4,659,396	3,444,855
Prepaid expenses	386,876	418,892
Property, plant and equipment held for sale (note 5)	-	253,081
Income tax receivable (note 16)	172,000	-
Other assets (note 7)	-	95,000
	10,525,574	8,965,632
Property, plant and equipment (note 5)	263,666	66,212
Intangible assets (note 6)	25,940	105,018
Goodwill (note 8)	1,592,095	1,592,095
Deferred income tax assets (note 16)	2,115,618	-
	14,522,893	10,728,957
Liabilities		
Current liabilities		
Bank indebtedness (note 9)	1,596,475	536,385
Trade and other payables (note 10)	3,622,792	3,616,859
Deferred revenue	323,249	274,736
Demand loan (note 11)	949,758	-
Current portion of long-term debt (note 13)	27,823	3,458,629
	6,520,097	7,886,609
Long-term debt (note 13)	2,698,423	364,699
Advances (note 12)	50,000	60,000
Due to shareholders (note 14)	16,638	55,502
	9,285,158	8,366,810
Shareholders' Equity		
Share capital (note 15)	5,526,964	5,356,053
Contributed surplus and other equity (note 15)	644,288	598,809
Deficit	(933,517)	(3,592,715)
	5,237,735	2,362,147
	14,522,893	10,728,957
Commitments and contingencies (note 20)		

Approved by the Board of Directors

 "Vijay Jog" Director
 Vijay Jog

 "Jane Pagel" 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, 2018

(expressed in Canadian dollars)

	Common shares #	Share capital \$	Contributed surplus and other equity \$	Deficit \$	Total \$
Balance - September 30, 2016	27,880,140	5,356,053	593,119	(3,927,082)	2,022,090
Share-based compensation (note 15)	-	-	5,690	-	5,690
Net earnings and comprehensive income for the year	-	-	-	334,367	334,367
Balance - September 30, 2017	27,880,140	5,356,053	598,809	(3,592,715)	2,362,147
Debt conversion (note 15)	511,638	107,030	-	-	107,030
Shares issued (note 15)	283,917	63,881	-	-	63,881
Share-based compensation (note 15)	-	-	45,479	-	45,479
Net earnings and comprehensive income for the year	-	-	-	2,659,198	2,659,198
Balance - September 30, 2018	28,675,695	5,526,964	644,288	(933,517)	5,237,735

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, 2018

(expressed in Canadian dollars)

	2018	2017
	\$	\$
Revenue (note 21)	32,246,586	30,528,483
Cost of sales (note 17)	25,485,657	24,089,263
Gross profit	6,760,929	6,439,220
Operating expenses		
Selling, general and administrative (note 17)	5,670,222	5,413,175
Earnings before undernoted items	1,090,707	1,026,045
Finance costs (note 17)	(547,127)	(691,678)
Earnings before provision for income tax	543,580	334,367
Deferred income tax recovery (note 16)	(2,115,618)	-
Net earnings and comprehensive income for the year	2,659,198	334,367
Earnings per share		
Basic	0.09	0.01
Diluted (note 19)	0.09	0.01
Weighted average number of shares outstanding		
Basic	28,494,885	27,880,140
Diluted (note 19)	28,505,435	27,922,627

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, 2018

(expressed in Canadian dollars)

	2018 \$	2017 \$
Cash provided by (used in)		
Operating activities		
Net earnings and comprehensive income for the year	2,659,198	334,367
Non-cash items		
Deferred income tax recovery (note 16)	(2,115,618)	-
Bad debt expense	269,203	175,879
Depreciation of property, plant and equipment (note 5)	99,280	120,495
Amortization of intangible assets (note 6)	79,078	257,228
Loss (gain) on disposal of property, plant and equipment (note 5)	(6,430)	68,762
Gain on disposal of other assets (note 7)	(10,000)	-
Gain on debt conversion (note 15)	(8,813)	-
Loss on debt extinguishment	23,056	-
Amortization of deferred financing costs	11,804	26,264
Realized gain on investment held for sale	-	(24,518)
Share-based compensation (note 15)	45,479	5,690
Financing fees on debt prepayment	(20,480)	-
Withholding taxes on debt conversion (note 15)	(30,396)	-
Changes in working capital items (note 18)	(2,064,019)	(1,294,815)
	<u>(1,068,658)</u>	<u>(330,648)</u>
Investing activities		
Acquisition of property, plant and equipment (note 5)	(46,723)	(13,715)
Proceeds from sale of property, plant and equipment (note 5)	9,500	653,567
Proceeds from sale of other assets, net of transaction costs (note 7)	105,000	-
Proceeds on disposal of short-term investments	-	100,000
Proceeds on disposal of investment held for sale	-	35,603
	<u>67,777</u>	<u>775,455</u>
Financing activities		
Increase in bank indebtedness	1,060,090	-
Proceeds from demand loan, net of deferred financing costs	974,111	-
Repayment of demand loan	(25,000)	-
Repayment of long-term debt	(1,015,108)	(707,584)
Repayment of advances	-	(8,627)
Repayment of due to shareholders	(9,799)	-
Principal payments on finance leases	-	(562)
Share issuance costs (note 15)	(5,530)	-
	<u>978,764</u>	<u>(716,773)</u>
Change in cash and cash equivalents during the year	(22,117)	(271,966)
Cash and cash equivalents - beginning of year	22,117	314,360
Bank indebtedness – beginning of year	(536,385)	(556,662)
Adjustment to bank indebtedness – beginning of year (note 25)	536,385	-
	<u>22,117</u>	<u>(242,302)</u>
Cash and cash equivalents - end of year	-	22,117
Bank indebtedness – end of year (note 25)	-	<u>(536,385)</u>
	-	<u>(514,268)</u>
Supplementary information		
Interest paid - included in operating activities	473,408	573,396

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

BluMetric Environmental Inc.

Notes to Consolidated Financial Statements

September 30, 2018

(expressed in Canadian dollars)

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 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 K0A 1L0. The Company's common shares are listed on the Toronto Venture Exchange (TSX.V - BLM) in Canada.

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 28, 2019.

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.

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.

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September 30, 2018

(expressed in Canadian dollars)

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:

- **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.

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.

- **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.

BluMetric Environmental Inc.

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- 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 of disposal and its value in use. Fair value estimates are impacted by changes in financial market conditions which could materially impact the determination of fair value and, therefore, could reduce or eliminate the excess of fair value over the carrying value of a reporting unit entirely and could potentially result in an impairment charge in the future.

- 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 up until June 30, 2018, when this subsidiary was sold. 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.

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- 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 and accounts receivable are classified as loans and receivables.
- Other 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, demand loan, 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
- 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 currently 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).

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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.

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. Losses on contracts, if any, are recognized in full in the period when such losses become probable.

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(expressed in Canadian dollars)

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 probable.

Contract revenues and costs are adjusted to reflect change orders that have been approved as to both price and scope.

For change orders that have not been approved as to price, contract revenues are recognized to the extent of costs incurred or, if lower, to the extent to which recovery is probable. Profit on unpriced change orders is not recognized until pricing has been approved. If there are disputes or claims regarding additional payments owing as a result of changes in contract specifications, delays, additional work or changed conditions, the Company's accounting policy is to record all costs for these change orders but not to record any revenues anticipated from these disputes until resolution is probable.

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 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.

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(expressed in Canadian dollars)

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.

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).

BluMetric Environmental Inc.
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(expressed in Canadian dollars)

The recoverable amount is the higher of fair value less costs of disposal 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. While classified as held for sale, no depreciation is taken.

Goodwill

During the year ended September 30, 2018, the Company determined that it has one CGU, which is the Company as a whole. This is due to multi-year strategic efforts by the Company to integrate its divisions towards a unified service offering for clients, accompanied by organizational changes to support the integration.

For the purpose of the 2017 annual impairment test there were two designated CGUs: Professional Services and Water Solutions. All goodwill was allocated to the Professional Services CGU, since it was the division deemed to benefit from the synergies of prior years' business combinations. These two CGUs have been combined for the purpose of the 2018 annual impairment test and goodwill is now measured at the company level.

Goodwill is 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 goodwill allocated to the CGU and then to the other assets of the CGU on a pro rata basis of the carrying amount of each asset.

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

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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 present value of the expenditure required to settle the present obligation at the end of the reporting period.

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. No warranty provisions have been recognized in the current year.

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.

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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.

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- 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.

BluMetric Environmental Inc.

Notes to Consolidated Financial Statements

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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.

The Company has determined that it has one operating reportable segment, being the Company taken as a whole.

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 on its 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) IAS 18, “Revenue,” and IAS 11, “Construction Contracts,” and the related interpretations.

The core principle of IFRS 15 is that an entity should recognize revenue based on the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and introduces a 5-step approach to revenue recognition.

Revenue from contract modifications, including change orders and claims, was previously recognized in accordance with IAS 11 only when certain conditions were met, including the fact that it was probable that the customer would approve the modification and the amount of revenue arising from it. Under IFRS 15, contract modifications are now included in estimated revenue when, among other factors, management believes the Company has an enforceable right to payment, the amount can be estimated reliably, and realization is highly probable. Consequently, in some instances the timing of when revenue from contract modifications is recognized will be delayed under IFRS 15. As well the revenue standard contains specific criteria for assessing whether control transfers at a point in time or over time based on the terms of the arrangement. While many construction-type contracts will transfer control of a good or service over time and therefore might warrant a similar pattern of revenue recognition as under existing guidance, a contract-by-contract analysis will be necessary to determine the appropriate timing of revenue recognition. 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.

- IFRS 16, Leases (IFRS 16)

IFRS 16 was issued in January 2016 and establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 will supersede the current lease recognition guidance including IAS 17 “Leases” and the related interpretations when it becomes effective.

Under IFRS 16, the lessee recognizes a right-of-use asset and a lease liability upon lease commencement for leases with a lease term of greater than one year. The right-of-use asset is initially measured at the amount of the lease liability plus any initial direct costs incurred by the lessee. Subsequent measurement is determined based on the nature of the underlying asset.

The lease liability is initially measured at the present value of the lease payments payable over the lease term and discounted at the implied lease rate. If the implied lease rate cannot be readily determined, the lessee shall use their incremental borrowing rate. Subsequent re-measurement is allowed under specific circumstances. The standard is effective for accounting periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of adopting this standard on its financial statements.

BluMetric Environmental Inc.
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(expressed in Canadian dollars)

4 Accounts receivable

	2018	2017
	\$	\$
Trade receivables	5,733,568	4,897,316
Other receivables	2,789	3,248
Allowance for doubtful accounts	(429,055)	(168,877)
	<u>5,307,302</u>	<u>4,731,687</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.

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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 9, 11 and 13). Accordingly, there are restrictions on the title of such assets.

	2018								
	Land \$	Buildings \$	Computer hardware \$	Field equipment \$	Office furniture and equipment \$	Leasehold improve- ments \$	Paving \$	Vehicles \$	Total \$
Cost									
Balance - October 1, 2017	-	-	1,997,220	473,886	746,664	126,948	-	171,495	3,516,213
Additions	-	-	14,440	6,500	-	-	-	25,783	46,723
Disposals	-	-	(1,453)	-	(5,365)	(34,189)	-	(76,370)	(117,377)
Reclassified from assets held for sale	65,873	1,167,089	-	-	-	534,642	26,606	-	1,794,210
Balance - September 30, 2018	65,873	1,167,089	2,010,207	480,386	741,299	627,401	26,606	120,908	5,239,769
Accumulated depreciation									
Balance - October 1, 2016	-	-	1,978,320	446,106	727,132	126,948	-	171,495	3,450,001
Depreciation	-	63,217	13,508	11,375	7,957	-	-	3,223	99,280
Disposals	-	-	(799)	-	(2,949)	(34,189)	-	(76,370)	(114,307)
Reclassified from assets held for sale	-	979,881	-	-	-	534,642	26,606	-	1,541,129
Balance - September 30, 2018	-	1,043,098	1,991,029	457,481	732,140	627,401	26,606	98,348	4,976,103
Net book value - Balance - September 30, 2018	65,873	123,990	19,178	22,905	9,159	-	-	22,560	263,666

BluMetric Environmental Inc.
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(expressed in Canadian dollars)

									2017
	Land \$	Buildings \$	Computer hardware \$	Field equipment \$	Office furniture and equipment \$	Leasehold improve- ments \$	Paving \$	Vehicles \$	Total \$
Cost									
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
Accumulated depreciation									
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

During the year, the Company disposed of property, plant and equipment with a cost of \$117,377 (2017 - \$860,334), accumulated depreciation of \$114,307 (2017 - \$138,005) and received proceeds on disposal of \$9,500 (2017 - \$653,685).

On September 28, 2017, the Company decided to sell its office building at 3108 Carp Road in Ottawa and reclassified the land, building, leasehold improvements and paving from non-current assets to assets held for sale. After one year, the property remains for sale and has been reclassified back to property plant and equipment.

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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 9 and 13). Accordingly, there are restrictions on the title of such assets.

	2018					
	Trademarks	Computer	Patents	Technology	Customer	Total
	\$	software	\$	\$	lists	\$
	\$	\$	\$	\$	\$	\$
Cost						
Balance - October 1, 2017	222,981	900,942	50,855	258,416	771,150	2,204,344
Additions	-	-	-	-	-	-
Balance - September 30, 2018	222,981	900,942	50,855	258,416	771,150	2,204,344
Accumulated amortization						
Balance - October 1, 2017	185,766	887,437	22,262	258,416	745,445	2,099,326
Amortization	37,215	13,167	2,991	-	25,705	79,078
Balance - September 30, 2018	222,981	900,604	25,253	258,416	771,150	2,178,404
Net book value -September 30, 2018	-	338	25,602	-	-	25,940

	2017					
	Trademarks	Computer	Patents	Technology	Customer	Total
	\$	software	\$	\$	lists	\$
	\$	\$	\$	\$	\$	\$
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

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(expressed in Canadian dollars)

7 Other assets

During the year ended September 30, 2018, the Company concluded the sale of its interest in Wasdell Falls Power Corporation. The Company received proceeds of \$105,000 and recognized a gain on sale of \$10,000.

8 Goodwill

The goodwill is allocated to the Company as a whole since this is the level at which goodwill is now monitored due to strategic integration of the Company's divisions. For the purpose of the 2017 annual impairment test, goodwill was allocated to the Professional Services CGU.

The recoverable amount has been determined based on a fair value less cost of disposal projection using an enterprise valuation technique. Management changed its valuation technique in the current year from using an after tax discounted cash flow model since enterprise value is believed to be more indicative of the fair value of the Company as this would maximize the observable inputs used to calculate the fair value of the Company.

Enterprise value was determined by multiplying the share price by the number of shares outstanding, plus net debt, less estimated cost of disposal. The valuation technique uses level 1 inputs for share price data and level 3 inputs for net debt in accordance with the fair value hierarchy described in Note 3.

The calculation of fair value less costs to sell is most sensitive to the following assumptions:

Change in share price

Change in Share price: The share price used was \$0.19 per share as traded on the TSX-V at the time the impairment analysis was performed. The 52 week trading range for 2018 was between \$0.17 per share to \$0.305 per share, with an annual average stock price of \$0.213 cents per share for 2018.

Based on the analysis performed, the fair value of the consolidated CGU for Company is higher than its carrying amount as at September 30, 2018 (2017 - higher) and as such, \$nil impairment has been identified as part of the annual impairment test (2017 - \$nil).

9 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. For the period ended September 30, 2018, the effective interest rate under this facility was 5.95% (2017 - 5.45%).

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

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(expressed in Canadian dollars)

As at September 30, 2018, the Company had drawn \$1,544,136 on its operating demand loan (2017 - \$510,218) and it had drawn \$206,635 in outstanding letters of credit (2017 - \$199,211). The letters of credit expire on July 26, 2019.

The Company has certain covenants in accordance with its short-term credit facilities. As at September 30, 2018, the Company was in compliance with all its covenants. As at September 30, 2017, the Company was in default of one of its covenants with respect to its fixed charge coverage ratio.

10 Trade and other payables

	2018	2017
	\$	\$
Trade payables	2,345,899	2,261,893
Salaries and benefits payable	614,374	644,012
Other accrued liabilities and payables	662,519	710,954
	<u>3,622,792</u>	<u>3,616,859</u>

As at September 30, 2018, other accrued liabilities and payables include amounts owing to key management personnel of \$nil (2017 - \$2,000) and directors of \$7,000 (2017 - \$11,333).

As at September 30, 2018, there was \$72,619 (2017 - \$292,282) owed to government agencies included in other accrued liabilities and payables.

11 Demand loan

	2018	2017
	\$	\$
Demand loan, issued on March 28, 2018, net of deferred financing costs of \$25,242, bearing interest at prime rate (3.70% as at September 30, 2018) plus 2%, repayable in monthly principal instalments of \$4,167 plus interest, secured by land and building with a carrying value of \$189,864 (September 30, 2017 - \$253,081)	949,758	-

12 Advances

Advances are owed to shareholders and bear interest at a rate of 7% with no fixed terms of repayment.

During the year ended September 30, 2018, \$10,000 of advances was converted to equity (see note 15). As at September 30, 2018, \$50,000 (2017 - \$60,000) are postponed in favour of the Company's bank. Interest on advances outstanding has not been postponed.

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13 Long-term debt

	2018 \$	2017 \$
Term loan, net of deferred financing costs of \$33,472 (2017- \$44,629), bearing interest at 10%, due in one instalment on September 12, 2021 (a)	2,466,528	2,455,371
Mortgage, bearing interest at 7.99%, repaid on March 29, 2018.	-	1,003,258
Restructured trade debt (b)	259,718	364,699
	<hr/>	<hr/>
	2,726,246	3,823,328
Less: Current portion	27,823	3,458,629
	<hr/>	<hr/>
	2,698,423	364,699
	<hr/>	<hr/>

- 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, 2018 \$112,954 (2017 - \$106,254) 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, 2018, the Company was in compliance with all its covenants.

As at September 30, 2017, the Company was in compliance with its covenants under the term loan agreement. However, the Company was in breach of the fixed charge coverage ratio covenant under its short-term credit facilities (see note 9). As a result of this breach, and the cross-default provisions, the entire amount of the term loan was included in the current portion of long-term debt. The Company 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. The agreement required the Company to repay this amount on a monthly basis, with blended payments of principal and interest at 7% per annum such that repayment in full would be effected after four years. These payments were suspended on March 1, 2013 and the outstanding balances were postponed in favour of the Company's previous bank.

During the year ended September 30, 2018, \$95,707 of this amount was converted to equity (see note 15). At September 30, 2018, \$164,656 (2017 - \$364,699) are postponed in favour of the Company's current bank.

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Long-term debt balances at as September 30, 2018, excluding \$164,656 in restructured trade debt which is postponed in favour of the Company's current bank, are due as follows:

	\$
2019	27,823
2020	27,823
2021	2,494,351
2022	11,593
2023 and thereafter	-
	<hr/>
	2,561,590
	<hr/>

14 Due to shareholders

Amounts due to shareholders are non-interest bearing, with no fixed terms of repayment.

During the year ended September 30, 2018, \$29,065 owed to shareholders was converted to equity (see note 15). As at September 30, 2018, repayments of \$16,638 (2017 - \$43,803) are postponed in favour of the Company's bank.

15 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.

Share issuance

On April 9, 2018, the Company issued 283,917 common shares pursuant to a Settlement Agreement with a key management member at an agreed upon conversion price of \$0.22 per share. The share price on April 9, 2018 was \$0.225 per share, resulting in a loss on debt conversion of \$1,420. This loss is recorded under selling, general, and administrative expenses. These common shares are subject to a hold period ending April 9, 2019.

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Debt conversion

On October 23, 2017, the Company concluded a debt conversion whereby \$153,189 of certain existing debt, which included \$30,396 of withholding taxes, was converted into 511,638 common shares at an agreed upon 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 (included in selling, general and administrative expenses). These common shares are subject to a hold period ending February 25, 2018. Share capital increased by \$107,030, which is net of share issuance costs of \$5,530.

Reduction of liabilities due to debt conversion included:

	\$
Trade and other payables - accrued interest on restructured trade debt	18,417
Long-term debt - restructured trade debt	95,707
Advances	10,000
Due to shareholders	29,065
	<u>153,189</u>

Share options

Activity in the share option plan is summarized as follows:

	<u>2018</u>		<u>2017</u>	
	Number of options #	Weighted average exercise price \$	Number of options #	Weighted average exercise price \$
Outstanding - Beginning of year	1,177,375	0.41	1,818,225	0.44
Granted	520,000	0.24	180,000	0.28
Expired	-	-	(326,000)	0.58
Forfeited	(54,500)	0.50	(494,850)	0.37
Outstanding - End of year	<u>1,642,875</u>	<u>0.35</u>	<u>1,177,375</u>	<u>0.41</u>
Exercisable- End of year	<u>912,875</u>	<u>0.44</u>	<u>817,375</u>	<u>0.47</u>

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Information about stock options outstanding as at September 30, 2018 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	2.5	0.20	46,667	2.5	0.20
0.21 - 0.30	780,000	3.8	0.25	153,333	2.3	0.27
0.31 - 0.40	120,000	3.5	0.32	40,000	3.5	0.32
0.41 - 0.50	672,875	0.1	0.50	672,875	0.1	0.50
	1,642,875	2.2	0.35	912,875	0.7	0.44

Share-based compensation

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

During the year ended September 30, 2018, the Company issued 520,000 (2017 - 180,000) options to directors to purchase common shares. The exercise price of the options is \$0.24 (2017 - ranges from \$0.21 to \$0.32). Of the options granted, 500,000 vest over three years and 20,000 vest over one year. All have a term of five years. The fair value of options granted during the year was \$69,830 (2017 - \$37,434) resulting in a weighted average grant date fair value of \$0.13 per option (2017 - \$0.21).

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

	2018	2017
Exercise price	0.24	\$0.21 - \$0.32
Expected volatility	107%	110%
Expected option life (years)	3.44	3.37
Expected dividends	-	-
Risk-free interest rate	1.89%	1.44%

During the year ended September 30, 2018, the Company recognized \$45,479 (2017 - \$5,690) in share-based compensation expense.

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16 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:

	2018	2017
	\$	\$
Earnings before income taxes	543,580	334,367
Statutory tax rate	26.53%	26.56%
Expected income tax expense	144,212	88,808
Rate differences		
Recognition of previously unrecognized deferred tax assets	(2,308,356)	-
Changes in temporary differences	-	(79,762)
Permanent differences	35,073	(9,046)
Prior period adjustments	13,453	-
Total tax recovery	(2,115,618)	-
Effective income tax rate	(389.2)%	0.00%

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

	2018			
	Balance - beginning of year	Recognized in income	Equity component	Balance - end of year
	\$	\$	\$	\$
Property, plant and equipment	1,740	294,396	-	296,136
Operating Losses	-	1,150,324	-	1,150,324
Capital Losses	-	18,662	-	18,662
Research and development expenses	-	660,993	-	660,993
Federal ITCs	-	(22,812)	-	(22,812)
Investments	(2,457)	2,457	-	-
Reserves	-	6,631	-	6,631
Financing cost	717	4,967	-	5,684
Other	-	(3,997)	3,997	-
	-	2,111,621	3,997	2,115,618

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	2017			
	Balance - beginning of year \$	Recognized in income \$	Equity component \$	Balance - end of year \$
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	-

The amount and timing of reversals of temporary differences will be dependent upon, among other things, the Company's future operating results, and acquisitions and dispositions of assets and liabilities. Legislative changes in tax rates could materially affect the Company's estimate of deferred income taxes.

	2018 \$	2017 \$
Deferred income tax assets	84,213	-
Deferred tax assets to be recovered within 12 months	2,054,217	-
Deferred tax assets to be recovered after more than 12 months	2,138,430	-
Deferred income tax liabilities	(22,812)	-
Deferred tax liabilities to be recovered within 12 months	-	-
Deferred tax liabilities to be recovered after more than 12 months	(22,812)	-
Net deferred income tax assets	2,115,618	-

The Company has the following non-capital losses, which are available to reduce income taxes in future periods, for which the Company has recognized a deferred tax asset 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	156,664
	4,336,747

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As at September 30, 2018, the Company had an investment tax credit in the amount of \$789,181 (2017 - \$789,181), of which \$86,000 was recorded as an income tax receivable in the consolidated statement of financial position. This credit can be used against any federal income tax payable and expires in the years 2024 to 2032.

As at September 30, 2018, the Company had an Ontario investment tax credit of \$86,000 (2017 - \$nil), of which \$86,000 was recorded as an income tax receivable in the consolidated statement of financial position. This credit can be used against any provincial income tax payable and expires in the years 2029 to 2032.

17 Expenses

	2018	2017
	\$	\$
Personnel	13,565,512	13,675,113
Materials	13,507,420	11,582,672
Consulting	226,350	249,376
Sub-contractors	121,179	72,456
Depreciation and amortization	179,039	377,725
Other operating expense	3,556,379	3,545,096
	<u>31,155,879</u>	<u>29,502,438</u>
Reported as:		
Cost of sales	25,485,657	24,089,263
Selling, general and administrative	5,670,222	5,413,175
	<u>31,155,879</u>	<u>29,502,438</u>
Finance costs		
Restructured debt	18,352	25,528
Term loans, bank loans and line of credit	404,035	411,856
Mortgage	47,496	131,822
Bank charges	31,815	45,033
Other finance charges	45,429	77,439
	<u>547,127</u>	<u>691,678</u>

18 Changes in working capital balances

	2018	2017
	\$	\$
Accounts receivable	(844,818)	(359,741)
Unbilled revenue	(1,214,541)	602,786
Prepaid expenses	32,016	93,914
Income tax receivable	(172,000)	-
Trade and other payables	86,811	(1,341,887)
Deferred revenue	48,513	(289,887)
	<u>(2,064,019)</u>	<u>(1,294,815)</u>

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(expressed in Canadian dollars)

19 Earnings per share

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

	2018	2017
Issued common shares as at October 1	27,880,140	27,880,140
Weighted average number of basic common shares	28,494,885	27,880,140
Effect of share options on issuance	10,550	42,487
Weighted average number of diluted common shares	28,505,435	27,922,627

Options that were anti-dilutive are not included in the computation of diluted common shares. For the year ended September 30, 2018, 1,402,875 options were excluded from the calculation because they were anti-dilutive (2017 - 937,375).

20 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, 2018 are as follows:

	Premises \$	Equipment \$	Total \$
Within one year	718,114	55,141	773,255
Between one and five years	1,612,613	144,092	1,756,705
After five years	-	-	-
	<u>2,330,727</u>	<u>199,233</u>	<u>2,529,960</u>

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 has obtained legal advice and believes there is one legal claim that is more likely than not to be successful. However an estimate of the claim amount is not determinable. Although resolution of such matters cannot be predicted with certainty, management does not consider the Company's exposure to this claim to be material. The success of the remaining claims is assessed as not likely or remote, with an estimated financial impact of \$280,000. The Company believes its existing insurance coverage is sufficient to mitigate its exposure. However the extent of coverage cannot be predicted with certainty. 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.

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21 Segmented disclosure

Revenue

The Company currently operates under one operating 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:

	2018 \$	2017 \$
Canada	29,813,120	29,822,688
United States	1,243,592	42,970
International	1,189,874	662,825
	32,246,586	30,528,483

Of total revenue for the year ended September 30, 2018, approximately 33% (2017 - 40%) 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).

22 Related party transactions

Compensation of key management personnel

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

	2018 \$	2017 \$
Salaries ⁽¹⁾	1,196,429	804,500
Short-term benefits	78,248	124,216
Share-based compensation	45,479	5,690
	1,320,156	934,406

(1) This includes \$250,000 pursuant to an employment contract with one of the Company's key management personnel whose term ended on November 30, 2017, as well as \$85,300 (2017 - \$94,000) for amounts paid to directors.

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The Company is currently a party to a consulting agreement that, if terminated by the Company, would require royalties to be paid for a period of 20 years at a rate of 0.2% of the gross dollar value for all products sold by the Company that includes various patented or proprietary technologies developed by the consultant. The Company does not believe this obligation will have a material impact on the consolidated financial statements.

23 Financial instruments

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

Classification	Measurement	2018		2017	
		Carrying value \$	Fair value \$	Carrying value \$	Fair value \$
Loans and receivables					
Cash	amortized cost	-	-	22,117	22,117
Accounts receivable	amortized cost	5,307,302	5,307,302	4,731,687	4,731,687
Unbilled revenue	amortized cost	4,659,396	4,659,396	3,444,855	3,444,855
Other assets	amortized cost	-	-	95,000	95,000
		<u>9,966,698</u>	<u>9,966,698</u>	<u>8,293,659</u>	<u>8,293,659</u>
Other financial liabilities					
Bank indebtedness	amortized cost	1,596,475	1,596,475	536,385	536,385
Trade and other payables	amortized cost	3,622,792	3,622,792	3,616,859	3,616,859
Demand loan	amortized cost	949,758	949,758	-	-
Long-term debt	amortized cost	2,726,246	2,656,667	3,823,328	3,823,328
Advances	amortized cost	50,000	48,004	60,000	58,786
Due to shareholders	amortized cost	16,638	16,638	55,502	55,502
		<u>8,961,909</u>	<u>8,890,334</u>	<u>8,092,074</u>	<u>8,090,860</u>

24 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.

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

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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 collectability 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:

	2018 \$	2017 \$
Past due 61 to 90 days	725,501	129,777
Past due greater than 90 days	954,617	844,914
Allowance for doubtful accounts	(429,055)	(168,877)
	1,251,063	805,814

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

	2018 \$	2017 \$
Balance - Beginning of year	168,877	115,724
Bad debt expense provision	340,218	303,512
Recoveries	(42,979)	(127,633)
Accounts written off	(37,061)	(122,726)
	429,055	168,877

At the end of the year, five customers (2017 - five customers) accounted for 52% (2017 - 36%) of accounts receivable.

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.

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The following table outlines the liquidity risk associated with the Company's payment obligations as at September 30, 2018 and September 30, 2017, respectively.

	2018				
	Total	Less than	4 - 12	1 - 5	Over 5
	\$	3 months	months	years	years
		\$	\$	\$	\$
Bank indebtedness	1,596,475	1,596,475	-	-	-
Trade and other payables	3,622,792	2,713,261	909,531	-	-
Demand loan	975,000	975,000	-	-	-
Long-term debt	3,582,279	74,001	222,002	3,286,276	-
Advances	67,500	875	2,625	64,000	-
Due to shareholders	16,638	-	-	16,638	-
	9,860,684	5,359,612	1,134,158	3,366,914	-
	2017				
	Total	Less than	4 - 12	1 - 5	Over 5
	\$	3 months	months	years	years
		\$	\$	\$	\$
Bank indebtedness	536,385	536,385	-	-	-
Trade and other payables	3,616,859	2,876,582	740,277	-	-
Advances	81,000	1,050	3,150	76,800	-
Long-term debt	4,069,110	2,530,631	1,071,664	466,815	-
Due to shareholders	55,502	-	-	55,502	-
	8,358,856	5,944,648	1,815,091	599,117	-

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, 2018, the Company had \$1,596,475 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 \$16,000 (2017-\$5,000).

- 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.

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The Company operates internationally and is therefore subject to foreign currency risk. The table below shows the Company's cash and financial instruments held in USD and their Canadian dollar equivalent:

	2018		2017	
	CA \$	US \$	CA \$	US \$
Cash	-	-	-	-
Accounts receivable	122,284	94,464	280,313	224,610
Bank indebtedness	(52,338)	(40,431)	26,167	20,967
Trade and other payables	(183,802)	(142,010)	2,346	1,880

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 \$11,000 (2017- \$25,000).

25 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.

At the beginning the year ended September 30, 2018, the Company determined it was more appropriate to include bank indebtedness as a financing activity on the Statement of Cash Flows. In the prior year, changes in bank indebtedness for the period were reconciled at the bottom of the Statement of Cash Flows. There were no other changes in the Company's approach to capital management during the year ended September 30, 2018 (2017 - no change).

26 Comparative figures

Certain comparative figures have been reclassified in order to conform to the current year presentation.