

Condensed Consolidated Interim Financial Statements

Three Month Period Ended
December 31, 2015

(expressed in Canadian Dollars)



Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements; they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the company have been prepared by, and are the responsibility of, the company's management.

The company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Notice to Reader

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

		December 31 2015	September 30 2015
	Notes	\$	\$
ASSETS			
Current assets			
Cash		432,971	-
Short term investments	5	410,562	409,425
Accounts receivable	3	7,962,448	7,226,548
Unbilled revenue		2,005,806	2,851,077
Prepaid expenses		517,466	231,579
Investment held for sale		12,680	9,372
		11,341,933	10,728,001
Non-current assets			
Property, plant and equipment		1,470,301	1,535,622
Intangible assets		576,704	649,882
Investment accounted for using the equity method	4	215,454	226,276
Long term investment		11,085	11,085
Goodwill		1,592,095	1,592,095
Total assets		15,207,572	14,742,961
LIABILITIES			
Current liabilities			
Bank indebtedness		-	22,533
Credit facilities	5	1,490,000	1,470,000
Trade and other payables	6	6,941,157	6,673,163
Deferred revenue		1,116,447	940,299
Note, advances and loans payable		291,951	290,902
Obligations under finance leases		3,532	3,960
Current portion of long term debt	7	1,823,095	1,784,655
Convertible debenture		1,371,239	1,341,993
		13,037,421	12,527,505
Non-current liabilities			
Obligations under finance leases		-	562
Long-term debt	7	562,941	638,418
Due to shareholders		55,502	55,502
Contingent consideration		156,282	156,282
Total liabilities		13,812,147	13,378,269
SHAREHOLDERS' EQUITY (DEFICIT)			
Share capital	8	5,356,053	5,356,053
Contributed surplus and other equity	8	539,041	524,086
Deficit		(4,499,668)	(4,515,447)
Total equity (deficit)		1,395,426	1,364,692
Total liabilities and shareholders' equity		15,207,572	14,742,961

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

APPROVED BY THE BOARD

"ROGER WOELLER"

Roger Woeller, Director

"MURRAY MALLEY"

Murray M. Malley, Director

BLUMETRIC ENVIRONMENTAL INC.

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

For the three months ended December 31, 2015 and 2014

(in Canadian dollars) (unaudited)

	Notes	Common shares #	Share capital \$	Contributed surplus and other equity \$	Retained earnings (deficit) \$	Total equity (deficit) \$
Balance at October 1, 2015		27,880,140	5,356,053	524,086	(4,515,447)	1,364,692
Share based compensation	8	-	-	14,955	-	14,955
Net income and comprehensive income for the period		-	-	-	15,779	15,779
Balance at December 31, 2015		27,880,140	5,356,053	539,041	(4,499,668)	1,395,426

	Notes	Common shares #	Share capital \$	Contributed surplus and other equity \$	Retained earnings \$	Total equity \$
Balance at October 1, 2014		25,191,656	4,629,424	388,771	(5,531,037)	(512,842)
Share based compensation	8	-	-	54,790	-	54,790
Net income and comprehensive income for the period		-	-	-	113,770	113,770
Balance at December 31, 2014		25,191,656	4,629,424	443,561	(5,417,267)	(344,282)

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

BLUMETRIC ENVIRONMENTAL INC.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME****For the three months ended December 31, 2015 and 2014**

(in Canadian dollars, except the number of shares)

	Notes	For the three months ended December 31	
		2015 \$	2014 \$
Revenue	12	7,937,197	7,779,364
Cost of goods sold	9	6,460,939	6,054,733
Gross profit		1,476,258	1,724,631
Operating expenses:			
Selling, general and administrative expenses	9	1,236,913	1,435,295
Total operating expenses		1,236,913	1,435,295
Operating income		239,345	289,336
Share of net loss of an associated company	4	(10,822)	(10,929)
Finance costs	9	(212,744)	(164,637)
Net income and comprehensive income for the year		15,779	113,770
Net income per share:			
Basic		\$0.00	\$0.00
Diluted	11	\$0.00	\$0.00
Weighted average number of shares outstanding:			
Basic		27,880,140	25,191,656
Diluted	11	27,880,140	25,191,656

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

BLUMETRIC ENVIRONMENTAL INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

For the three months ended December 31, 2015 and 2014

(in Canadian dollars) (unaudited)

	Notes	For the three months ended	
		December 31	
		2015	2014
		\$	\$
Cash flows from operating activities			
Net income for the period		15,779	113,770
Non-cash items:			
Depreciation of property, plant and equipment		66,886	137,789
Amortization of intangible assets		85,499	115,324
Interest accretion on convertible debenture		29,246	26,903
Share of net loss of an associated company	4	10,822	10,929
Unrealized loss (gain) on investment held for sale		(3,308)	13,030
Share-based compensation	8	14,955	54,790
Changes in working capital items	10	267,626	(100,372)
Net cash generated by operating activities		487,505	372,163
Cash flows from investing activities			
Acquisition of property, plant and equipment		(1,565)	(33,577)
Acquisition of intangible assets		(12,321)	-
Change in short term investments	5	(1,137)	-
Net cash used in investing activities		(15,023)	(33,577)
Cash flows from financing activities			
Increase in note, advances and loans payable		1,049	5,057
Repayment of long term debt		(37,037)	(94,611)
Repayment of finance leases		(990)	(991)
Increase (decrease) in use of credit facilities		20,000	(300,000)
Net cash used in financing activities		(16,978)	(390,545)
Net change in cash and cash equivalents		455,504	(51,959)
Bank indebtedness – Beginning of period		(22,533)	(180,626)
Cash (bank indebtedness) – End of period		432,971	(232,585)
Supplementary Information			
Interest paid - included in operating activities		135,558	116,019
Taxes paid - included in operating activities		-	-

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

1. Nature of Operations

BluMetric is an integrated product and service organization providing sustainable solutions to complex environmental issues in Canada and abroad. The Company serves clients in many industrial sectors, and at all levels of government, both domestically and internationally.

BluMetric focuses on two main areas:

- professional consulting services on environmental earth sciences and engineering, contaminated site remediation, water resource management, industrial hygiene, occupational health and safety, and renewable energy; and
- water and wastewater design-build and pre-engineered product solutions.

The head office of the Company is located at 3108 Carp Road, Ottawa, Ontario, Canada K0A 1L0. The Company's common shares are listed on the Toronto Venture Exchange ("TSX.V") in Canada.

2. Basis of Presentation and Summary of Accounting Policies

a. Going concern

These consolidated financial statements have been prepared on the basis of the going concern assumption, meaning the Company will be able to realize its assets and discharge its liabilities in the normal course of operations. However, certain adverse conditions and events cast significant doubt upon the validity of this assumption.

BluMetric has generated positive earnings for the year ended September 30, 2015. However, the Company remains in violation of certain of its debt covenants which triggers a cross default clause and results in certain long-term debt balances being reclassified to current debt as it is payable on demand. In addition, the convertible debenture and one significant mortgage have been reclassified as current based on their respective maturities during the upcoming fiscal year. As a result of these reclassifications, the Company's working capital is in a deficit position of \$1.7 million.

The Company and its primary lender have been working under the terms of a forbearance agreement signed December 14, 2015. This agreement precludes the lender from taking actions to enforce its rights under the existing debt facility, rights which were triggered by the covenant violation. This agreement expires March 31, 2016.

The Company is actively pursuing a new financing arrangement that it anticipates will provide greater cash availability than its current credit facility. Additionally, the Company intends to renegotiate its mortgage which is coming due July 16, 2016, and replace existing convertible debentures with another medium term financing arrangement. The Company's ability to continue operating on a sustainable basis is dependent upon securing a new banking relationship, new financing, generating sufficient cash from its operations to satisfy its liquidity requirements, and continuing to satisfy current creditors. However, there can be no assurance it will be successful in these efforts.

The Company continues to report significant stable revenues with improving margins and is driving profitability by continuing to control costs and by ongoing adjustments to its operations.

If the going concern assumption was not appropriate for these financial statements, then adjustments would likely be necessary in the carrying amounts of assets and liabilities, revenues and expenses, the accumulated deficit and the classifications used in the consolidated statement of financial position. These adjustments could be material.

b. Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. These condensed consolidated interim financial statements follow the same accounting policies as the Company’s most recent annual financial statements for the year ended September 30, 2015, which can be found, along with other information, at www.sedar.com.

These condensed consolidated interim financial statements do not contain all of the information and disclosures required for annual financial statements, and should be read in conjunction with the Company’s annual audited consolidated financial statements for the year ended September 30, 2015.

c. Authorization of Financial Statements

The condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors on February 29, 2016.

d. Presentation and Functional Currency

The Company’s presentation and functional currency is the Canadian dollar, which is also the functional currency of the subsidiary.

e. Basis of Measurement

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

The accounting policies set out in the Company’s most recent annual financial statements have been applied consistently to all periods presented in these condensed consolidated interim financial statements. As such, it should be read in conjunction with the consolidated annual financial statements and related note disclosures for the year ended September 30, 2015.

3. Accounts Receivable

	December 31, 2015	September 30, 2015
	\$	\$
Trade receivables	8,529,956	7,662,885
Other receivables	335,009	330,464
Allowance for doubtful accounts	(902,517)	(766,801)
	7,962,448	7,226,548

All of the Company's trade and other receivables have been reviewed for indications of impairment. An allowance for doubtful accounts has been established for any trade receivable found to be impaired.

4. Investment Accounted for using the Equity Method

The Company has an investment in Wasdell Falls Power Corporation which it accounts for under the equity method. During the three months ended December 31, 2015, the Company recognized \$10,822 (December 31, 2014 - \$10,929). Wasdell Falls Power Corporation has not yet achieved the commencement of operations. Accordingly, they have not generated any revenues to date.

5. Credit Facilities

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

At December 31, 2015, the Company had drawn \$1,490,000 (September 30, 2015 - \$1,470,000) on its operating line of credit, which carries a floating rate of interest of prime plus 3.50%, is payable on demand and is secured by a general security agreement over the Company's assets.

At December 31, 2015, the Company had outstanding letters of guarantee of \$410,562 (September 30, 2015 - \$409,425). These letters of guarantee mature on March 31, 2016 and June 30, 2016. In connection with the letters of guarantee, the Company holds short term investments in the amount of \$410,562.

The Company has certain covenants in accordance with its banking agreement which include maintaining a debt to service ratio in excess of 1.2:1 and maintaining, on a quarterly basis, a minimum tangible net worth of \$2.0 million. As at December 31, 2015, the Company was in default of the tangible net worth covenant (see Note 2(a) – Going Concern).

6. Trade and Other Payables

	December 31, 2015	September 30, 2015
	\$	\$
Trade payables	4,978,753	4,575,586
Salaries and benefits payable	663,138	633,842
Other accrued liabilities and payables	1,299,266	1,463,735
	6,941,157	6,673,163

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

As at December 31, 2015, other accrued liabilities and payables includes amounts owing to key management personnel of \$22,701 (September 30, 2015 - \$32,539).

7. Long-Term-Debt

At December 31, 2015, the Company is in default of one of its debt covenants (see Note 5), which has triggered a cross default on its bank loans. Consequently, the long term debt portion attributable to these loans has been reclassified to current liabilities and is now payable on demand.

8. Shareholders' Equity (Deficit)

Share Options

Activity in the share option plan is summarized as follows:

	For the three months ended			
	December 31, 2015		December 31, 2014	
	Number of options #	Weighted average exercise price \$	Number of options #	Weighted average exercise price \$
Outstanding, beginning of period	2,009,325	0.61	2,081,775	1.00
Granted	340,000	0.28	-	0.50
Exercised	-	-	-	-
Forfeited	(202,500)	0.62	(44,367)	0.53
Outstanding, end of period	2,146,825	0.55	2,037,408	0.60
Exercisable, end of period	1,504,655	0.62	1,372,835	0.68

Share-Based Compensation

During the three months ended December 31, 2015, the Company recognized \$14,955 (December 31, 2014 - \$54,790) in compensation expense related to the vesting of previously granted stock options.

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

	For the three months ended	
	December 31	
	2015	2014
	\$	\$
Employee Benefit Expenses		
Salaries and short term benefits	3,245,676	2,808,063
Share based compensation cost	14,956	54,790
Pensions - defined contribution plans	87,192	82,913
Employee group benefit expense	137,988	185,626
	<u>3,485,812</u>	<u>3,131,392</u>
Finance Costs		
Interest on convertible debentures	61,511	59,078
Interest on debt restructuring	2,354	20,079
Interest on bank loans	2,313	11,056
Other interest and financial expense	146,566	74,470
Interest income	-	(46)
	<u>212,744</u>	<u>164,637</u>
Other elements of expenses		
Foreign exchange	(119,277)	(41,458)

10. Changes in Working Capital Balances

	For the three months ended	
	December 31	
	2015	2014
	\$	\$
Accounts receivable	(735,900)	(1,289,903)
Unbilled revenue	845,271	836,693
Prepaid expenses	(285,887)	(48,887)
Trade and other payables	267,994	(547,000)
Deferred revenue	176,148	948,725
	<u>267,626</u>	<u>(100,372)</u>

11. Earnings per Share

For the three months ended December 31, 2015 and December 31, 2014, outstanding options, warrants and convertible debentures were not included in the computation of diluted loss per share because to have done so would have been anti-dilutive.

12. Segmented Disclosure

Revenue

The Company currently operates under two reportable segments as follows:

	For the three months ended December 31	
	2015	2014
	\$	\$
Professional Services	6,259,826	5,734,325
Water Systems	1,677,371	2,045,039
	7,937,197	7,779,364

Geographical Segmentation

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

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

	For the three months ended December 31	
	2015	2014
	\$	\$
Canada	7,305,691	6,822,915
International	133,473	750,407
United States	498,033	206,042
	7,937,197	7,779,364

Of total revenue for the three months ended December 31, 2015, approximately 28% was derived from one client in Professional Service (three months ended December 31, 2014 - 15%).

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

The Company reviews the following current assets and current liabilities at a segment level:

	December 31, 2015		September 30, 2015	
	\$		\$	
	Professional Services	Water Systems	Professional Services	Water Systems
Trade accounts receivable	5,596,302	2,031,136	4,124,053	2,772,031
Unbilled revenue	601,577	378,225	1,590,209	1,260,868
Deferred revenue	89,343	1,100	512,545	427,754

13. Related Party Transactions

All related party transactions are reflected under terms and conditions reflecting prevailing market conditions at the transaction date and are recorded at the amounts agreed upon by the parties.

Compensation of Key Management Personnel

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

	For the three months ended	
	December 31	
	2015	2014
	\$	\$
Salaries, short-term benefits and share based compensation	292,711	173,814