

Condensed Consolidated Interim Financial Statements

Three and nine month period
ended June 30, 2016 and 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)

		June 30 2016 \$	September 30 2015 \$
	Notes		
ASSETS			
Current assets			
Cash		29,879	-
Short term investments	6	501,934	409,425
Accounts receivable	3	5,071,813	7,226,548
Unbilled revenue		3,696,262	2,851,077
Prepaid expenses		350,697	231,579
Investment held for sale		-	9,372
Investment accounted for using the equity method	4	251,282	-
		9,901,867	10,728,001
Non-current assets			
Property, plant and equipment	5	1,177,112	1,535,622
Intangible assets		426,553	649,882
Investment accounted for using the equity method	4	-	226,276
Long term investment		11,085	11,085
Goodwill		1,592,095	1,592,095
Total assets		13,108,712	14,742,961
LIABILITIES			
Current liabilities			
Bank indebtedness		-	22,533
Credit facilities	6	1,530,000	1,470,000
Trade and other payables	7	5,115,050	6,673,163
Deferred revenue		583,812	940,299
Note, advances and loans payable		69,725	290,902
Obligations under finance leases		1,550	3,960
Current portion of long term debt	8	501,273	1,784,655
Convertible debenture		1,430,000	1,341,993
Contingent consideration	4	156,282	-
		9,387,692	12,527,505
Non-current liabilities			
Obligations under finance leases		-	562
Long-term debt	8	1,578,294	638,418
Due to shareholders		55,502	55,502
Contingent consideration	4	-	156,282
Total liabilities		11,021,488	13,378,269
SHAREHOLDERS' EQUITY			
Share capital	9	5,356,053	5,356,053
Contributed surplus and other equity	9	571,479	524,086
Deficit		(3,840,308)	(4,515,447)
Total equity		2,087,224	1,364,692
Total liabilities and shareholders' equity		13,108,712	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 nine months ended June 30, 2016 and 2015

(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	9	-	-	47,393	-	47,393
Net income and comprehensive income for the period		-	-	-	675,139	675,139
Balance at June 30, 2016		27,880,140	5,356,053	571,479	(3,840,308)	2,087,224

	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	9	-	-	119,629	-	119,629
Net income and comprehensive income for the period		-	-	-	681,912	681,912
Balance at June 30, 2015		25,191,656	4,629,424	508,400	(4,849,125)	288,699

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 and nine months ended June 30, 2016 and 2015

(in Canadian dollars, except the number of shares) (unaudited)

	Notes	For the three months ended June 30		For the nine months ended June 30	
		2016	2015	2016	2015
		\$	\$	\$	\$
Revenue	13	8,377,957	8,675,022	24,235,177	24,235,823
Cost of goods sold	10	6,507,281	6,663,523	18,975,480	18,915,653
Gross profit		1,870,676	2,011,499	5,259,697	5,320,170
Operating expenses:					
Selling, general and administrative expenses	10	1,261,786	1,510,330	4,091,807	4,333,500
Loss (gain) on disposal of property plant and equipment	5	7,516	-	(172,876)	(247,481)
Reversal of impairment loss on equity investment	4	-	-	(44,849)	-
Total operating expenses		1,269,302	1,510,330	3,874,082	4,086,019
Operating income		601,374	501,169	1,385,615	1,234,151
Share of net loss of an associated company	4	-	(18,888)	(19,843)	(43,174)
Finance costs	10	(230,699)	(160,213)	(690,633)	(509,065)
Net income and comprehensive income for the period		370,675	322,068	675,139	681,912
Net income per share:					
Basic		\$0.01	\$0.01	\$0.02	\$0.03
Diluted	12	\$0.01	\$0.01	\$0.02	\$0.03
Weighted average number of shares outstanding:					
Basic		27,880,140	25,191,656	27,880,140	25,191,656
Diluted	12	27,880,140	25,191,656	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 and nine months ended June 30, 2016 and 2015
(in Canadian dollars) (unaudited)

	Notes	For the three months ended		For the nine months ended	
		June 30		June 30	
		2016	2015	2016	2015
		\$	\$	\$	\$
Cash flows from operating activities					
Net income for the period		370,675	322,068	675,139	681,912
Non-cash items:					
Depreciation of property, plant and equipment		34,036	94,134	140,443	343,838
Amortization of intangible assets		62,810	85,064	235,650	302,502
Loss (gain) on disposal of property, plant and	5	7,516	-	(172,876)	(247,481)
Interest accretion on convertible debenture		29,561	26,902	88,007	80,709
Reversal of impairment of equity investment	4	-	-	(44,849)	-
Share of net loss of an associated company	4	-	18,888	19,843	43,174
Unrealized loss (gain) on investment held for sale		-	-	(3,308)	13,030
Share-based compensation	9	17,653	14,642	47,393	119,629
Changes in working capital items	11	(806,506)	63,564	(724,168)	(857,863)
Net cash generated by (used in) operating activities		(284,255)	625,262	261,274	479,450
Cash flows from investing activities					
Acquisition of property, plant and equipment		(7,695)	(15,168)	(9,260)	(48,745)
Acquisition of intangible assets		-	-	(12,321)	-
Change in short term investments		(3,193)	(388,593)	(92,509)	(388,593)
Change in investments held for sale		12,680	14,900	12,680	14,900
Proceeds on disposal of property, plant and equipment		-	-	400,203	743,199
Net cash generated by (used in) investing activities		1,792	(388,861)	298,793	320,761
Cash flows from financing activities					
Increase (decrease) in note, advances and loans payable		1,047	4,813	(221,177)	4,267
Repayment of long term debt		(12,790)	(37,321)	(343,506)	(718,521)
Repayment of finance leases		(991)	(990)	(2,972)	(2,972)
Increase in use of credit facilities		600,000	310,000	60,000	220,000
Net cash generated by (used in) financing activities		587,266	276,502	(507,655)	(497,226)
Net change in cash and cash equivalents		304,803	512,903	52,412	302,985
Cash (bank indebtedness) – Beginning of period		(274,924)	(390,544)	(22,533)	(180,626)
Cash (bank indebtedness) – End of period		29,879	122,359	29,879	122,359
Supplementary Information					
Interest paid - included in operating activities		186,667	109,841	433,493	279,059
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:

- 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 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") 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 last seven quarters. However, the Company has not been able to meet its tangible net worth covenant required for its operating line of credit.

The Company and its bank lender have been working under the terms of a forbearance agreement signed December 14, 2015. This agreement precludes the bank from taking actions to enforce its rights under the existing debt facility and expired July 31, 2016. The Company's working capital at June 30, 2016 is \$514,175.

On May 30, 2016, the Company signed a commitment letter with a new bank, which is subject to customary conditions, including the negotiation of definitive agreements as well as other conditions as set forth in the letter. The Company expects these agreements will be signed and the replacement operating credit facility will be available by approximately mid-September 2016.

On August 24, 2016, the Company signed a letter of offer with another institution for the provision of financing that will be used for growth as well as to repay the existing convertible debentures. The letter of offer is also subject to conditions, including the negotiation of definitive agreements and other conditions as set forth in the letter. The Company expects that these agreements will be signed and the additional financing will be available by approximately mid-September 2016.

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 stable revenues and margins through the year 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 August 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

	June 30, 2016	September 30, 2015
	\$	\$
Trade receivables	5,146,354	7,662,885
Other receivables	119,096	330,464
Allowance for doubtful accounts	(193,637)	(766,801)
	5,071,813	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

As at December 1, 2010, the Company had a 50% interest in Wasdell Falls Power Corporation, a jointly controlled entity involved in the business of developing a hydroelectric power generation project in the region of the Wasdell Falls dam. During the year ended November 30, 2011, the Company entered into an agreement to sell its interest in Wasdell Falls Power Corporation. The sale involves three transaction steps, the last of which will occur once Wasdell Falls Power Corporation has achieved the commencement of operations. At that time the Company will begin the process of closing out the ownership interest. This will result in the Company receiving the remaining cash and common shares of Coastal Hydro Corporation in exchange for its remaining interests in Wasdell Falls Power Corporation. Total consideration is to be \$465,455, plus 1,500,000 common shares of Coastal Hydro Corporation, a privately owned company. To date, the purchasers have paid \$332,776 in connection with the agreement in exchange for one half of the Company's interest in Wasdell Falls Power Corporation. The Company revalued its remaining 25% interest in Wasdell Falls Power Corporation at a fair value of \$411,478, based on an observed equivalent cash transaction.

The Company is required to make a contingent payment to the previous shareholders of OEL Hydrosys once the Company sells their remaining investment in Wasdell Falls Power Corporation. The fair value of the contingent consideration was calculated using a discounted cash flow method based upon the likelihood and timing of the project becoming operational and a discount rate of 15%. The total contingent consideration at June 30, 2016 is \$156,282 (September 30, 2015 - \$156,282).

Wasdell Falls achieved commencement of operations during the quarter ended March 31, 2016. The Company is in the process of closing out the remaining 25% ownership.

During the nine months ended June 30, 2016, the Company recognized its share of the net loss of the investment of \$19,843 (June 30, 2015 - \$43,174) and a reversal of impairment loss of \$44,849 (June 30, 2015 - \$nil) to bring the investment to its estimated recoverable amount.

5. Property, Plant and Equipment

On March 16, 2016, the Company sold land and building. In connection with this transaction, a gain on sale in the amount of \$180,392 was recorded in the statement of comprehensive income.

6. Credit Facilities

As at June 30, 2016 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). Subsequent to the quarter end, the Company's operating line of credit has been reduced to \$1,750,000.

At June 30, 2016, the Company had drawn \$1,530,000 (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 June 30, 2016, the Company held short term investments in the amount of \$501,934 (September 30, 2015 - \$409,425). All term deposits have been assigned to the Company's bank.

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 June 30, 2016, the Company was in default of the tangible net worth covenant (see Note 2(a) – Going Concern).

7. Trade and Other Payables

	June 30, 2016	September 30, 2015
	\$	\$
Trade payables	2,938,869	4,575,586
Salaries and benefits payable	940,964	633,842
Other accrued liabilities and payables	1,235,217	1,463,735
	5,115,050	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 June 30, 2016, other accrued liabilities and payables includes amounts owing to key management personnel of \$20,000 (September 30, 2015 - \$32,539).

8. Long Term Debt

	<u>June 30, 2016</u>	<u>Sept 30 2015</u>
	<u>\$</u>	<u>\$</u>
Mortgage, bearing interest at 7.99%, repayable in monthly principal instalments of \$8,083 plus interest, due July 16, 2018, secured by a collateral mortgage on land and building with a carrying value of \$316,298 (September 30, 2015 - \$364,927).	1,031,798	1,014,239
Mortgage, bearing interest at BDC Floating Base Rate (4.7% as at June 30, 2016 and September 30, 2015) plus 2.0%, repayable in monthly principal instalments of \$3,900 plus interest, due June 15, 2029, secured by a collateral mortgage on land and building with a carrying value of \$750,227 (September 30, 2015 - \$776,287).	608,400	643,500
Bank loan, bearing interest at prime plus 3.5%. Repaid in full on March 18, 2016.	-	145,000
Bank loan, bearing interest at prime plus 3.5%. Repaid in full on March 18, 2016.	-	25,662
Bank loan, bearing interest at prime plus 3.5%. Repaid in full on March 18, 2016.	-	43,836
Bank loan, bearing interest at prime plus 3.5%. Repaid in full on March 18, 2016.	-	86,188
Ford Credit loan, bearing interest at prime, payable in monthly instalments of \$3,190, due May 2017 and secured by a general security agreement.	8,419	24,964
Restructured trade debt ⁽¹⁾	430,950	439,684
Total	2,079,567	2,423,073
Current portion of long-term debt	501,273	1,784,655
Long-term portion of long-term debt	1,578,294	638,418

- (1) On November 15, 2012, the Company reached agreement with a number of creditors with respect to repayment terms for outstanding amounts payable, in the aggregate amount of \$958,285. Of this amount, \$450,452 was owed to related parties. The agreement requires the Company to repay this amount on a monthly basis, with blended payments of \$22,947 principal and interest at 7% per annum such that repayment in full will be effected in four years. Effective March 1, 2013, payments were suspended and the outstanding balances have been postponed in favour of the Company's bank. During the year ended September 30, 2015, \$332,002 of this debt was converted to equity.

9. Shareholders' Equity

Share Options

Activity in the share option plan is summarized as follows:

	For the nine months ended			
	June 30, 2016		June 30, 2015	
	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	460,000	0.26	-	-
Exercised	-	-	-	-
Forfeited	(576,366)	0.51	(70,318)	0.52
Outstanding, end of period	1,892,959	0.49	2,011,457	0.61
Exercisable, end of period	1,326,688	0.60	1,429,852	0.65

Share-Based Compensation

On April 1, 2016 the Company issued 60,000 options to purchase Common Shares to a new director of the Company. On April 6, 2016, the Company issued an additional 60,000 options to purchase Common Shares to the remaining directors of the Company. All options granted vest over three years, have an exercise price of \$0.20 per share and a term of five years.

On November 5, 2015, the Company issued 340,000 options to purchase Common Shares to officers and directors of the Company. The options vest over three years, have an exercise price of \$0.28 per share and a term of five years.

During the nine months ended June 30, 2016, the Company recognized \$47,393 (June 30, 2015 - \$119,629) in compensation expense related to the vesting of previously granted stock options.

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

	For the three months ended		For the nine months ended	
	June 30		June 30	
	2016	2015	2016	2015
	\$	\$	\$	\$
Employee Benefit Expenses				
Salaries and short term benefits	3,169,702	2,915,797	10,105,708	8,379,725
Share based compensation cost	17,653	14,642	47,393	119,629
Pensions - defined contribution plans	87,950	78,522	256,374	248,501
Employee group benefit expense	174,252	121,499	425,729	439,568
	<u>3,449,557</u>	<u>3,130,460</u>	<u>10,835,204</u>	<u>9,187,423</u>
Finance Costs				
Interest on convertible debentures	61,735	63,228	184,758	181,384
Interest on debt restructuring	14,530	14,560	78,003	61,120
Interest on bank loans	-	6,213	3,752	27,507
Other interest and financial expense	154,434	76,212	424,120	239,441
Interest income	-	-	-	(387)
	<u>230,699</u>	<u>160,213</u>	<u>690,633</u>	<u>509,065</u>
Other elements of expenses				
Foreign exchange	45,583	(47,791)	(66,800)	(60,208)

11. Changes in Working Capital Balances

	For the three months ended		For the nine months ended	
	June 30		June 30	
	2016	2015	2016	2015
	\$	\$	\$	\$
Accounts receivable	1,119,351	1,540,095	2,154,735	1,050,250
Inventory	-	720	-	1,549
Unbilled revenue	(961,924)	(1,323,705)	(845,185)	350,469
Prepaid expenses	122,446	(217,360)	(119,118)	(761,794)
Trade and other payables	1,173	916,996	(1,558,113)	(404,491)
Deferred revenue	(1,087,552)	(853,182)	(356,487)	(1,093,846)
	<u>(806,506)</u>	<u>63,564</u>	<u>(724,168)</u>	<u>(857,863)</u>

12. Earnings per Share

For the three and nine months ended June 30, 2016 and June 30, 2015, 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.

13. Segmented Disclosure

Revenue

The Company currently operates under two reportable segments as follows:

	For the three months ended June 30		For the nine months ended June 30	
	2016	2015	2016	2015
	\$	\$	\$	\$
Professional Services	5,568,807	4,506,892	16,964,681	14,063,443
Water Systems	2,809,150	4,168,130	7,270,496	10,172,380
	8,377,957	8,675,022	24,235,177	24,235,823

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 June 30		For the nine months ended June 30	
	2016	2015	2016	2015
	\$	\$	\$	\$
Canada	7,534,459	7,139,275	21,850,809	21,465,710
International	365,074	1,257,064	1,123,181	2,128,250
United States	478,424	278,683	1,261,187	641,863
	8,377,957	8,675,022	24,235,177	24,235,823

Of total revenue for the three months ended June 30, 2016, approximately 41% was derived from three clients (three months ended June 30, 2015 - 31% from three clients).

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

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

	June 30, 2016		September 30, 2015	
	\$		\$	
	Professional Services	Water Systems	Professional Services	Water Systems
Trade accounts receivable	3,434,425	1,518,292	4,124,053	2,772,031
Unbilled revenue	2,534,179	1,162,083	1,590,209	1,260,868
Deferred revenue	430,639	153,173	512,545	427,754

14. 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.

15. Compensation of Key Management Personnel

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

	For the nine months ended June 30	
	2016	2015
	\$	\$
Salaries, short-term benefits and share based compensation	764,875	539,263