

# **BluMetric Environmental Inc.**

Condensed Consolidated Interim Financial  
Statements

**For the Six Months Ended**

**March 31, 2019**

(unaudited, 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.

# BluMetric Environmental Inc.

## Condensed Consolidated Interim Statement of Financial Position As at March 31, 2019

(expressed in Canadian dollars)  
(unaudited)

	March 31 2019 \$	September 30 2018 \$
<b>Assets</b>		
<b>Current assets</b>		
Accounts receivable (note 5)	4,978,073	5,307,302
Unbilled revenue (note 5)	2,250,947	4,659,396
Contract asset	877,589	-
Prepaid expenses	301,054	386,876
Income tax receivable	172,000	172,000
	<u>8,579,663</u>	<u>10,525,574</u>
<b>Property, plant and equipment</b>	252,602	263,666
<b>Intangible assets</b>	24,102	25,940
<b>Goodwill</b>	1,592,095	1,592,095
<b>Deferred income tax assets</b>	1,988,064	2,115,618
	<u>12,436,526</u>	<u>14,522,893</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 6)	346,585	1,596,475
Trade and other payables (note 7)	2,644,988	3,622,792
Deferred revenue	185,226	323,249
Demand loan (note 8)	925,405	949,758
Current portion of long-term debt (note 9)	57,554	27,823
	<u>4,159,758</u>	<u>6,520,097</u>
<b>Long-term debt (note 9)</b>	2,686,772	2,698,423
<b>Advances</b>	50,000	50,000
<b>Due to shareholders</b>	16,638	16,638
	<u>6,913,168</u>	<u>9,285,158</u>
<b>Shareholder's Equity</b>		
<b>Share capital</b>	5,526,964	5,526,964
<b>Contributed surplus and other equity (note 10)</b>	671,347	644,288
<b>Deficit</b>	(674,953)	(933,517)
	<u>5,523,358</u>	<u>5,237,735</u>
	<u>12,436,526</u>	<u>14,522,893</u>

### Approved by the Board of Directors

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"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.

## Condensed Consolidated Interim Statement of Changes in Shareholders' Equity For the six months ended March 31, 2019 and 2018

(expressed in Canadian dollars)  
(unaudited)

	Common shares #	Share capital \$	Contributed surplus and other equity \$	Deficit \$	Total \$
<b>Balance - October 1, 2018</b>	28,675,695	5,526,964	644,288	(933,517)	5,237,735
Impact of change in accounting policy (note 4b)	-	-	-	(43,139)	(43,139)
<b>Adjusted Balance - October 1, 2018</b>	28,675,695	5,526,964	644,288	(976,656)	5,194,596
Share-based compensation (note 10)	-	-	27,059	-	27,059
Net earnings and comprehensive income for the period	-	-	-	301,703	301,703
<b>Balance - March 31, 2019</b>	28,675,695	5,526,964	671,347	(674,953)	5,523,358
<b>Balance - October 1, 2017</b>	27,880,140	5,356,053	598,809	(3,592,715)	2,362,147
Debt conversion	511,638	107,030	-	-	107,030
Share-based compensation (note 10)	-	-	17,671	-	17,671
Net earnings and comprehensive income for the period	-	-	-	269,395	269,395
<b>Balance - March 31, 2018</b>	28,391,778	5,463,083	616,480	(3,323,320)	2,756,243

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

# BluMetric Environmental Inc.

## Condensed Consolidated Interim Statement of Net Earnings and Comprehensive Income For the six months ended March 31, 2019 and 2018

(expressed in Canadian dollars)  
(unaudited)

	For the three months ended		For the six months ended	
	March 31, 2019	March 31, 2018	March 31, 2019	March 31, 2018
	\$	\$	\$	\$
<b>Revenue</b> (note 14,16)	6,989,669	7,707,753	14,590,877	15,267,710
<b>Cost of goods sold</b> (note 11)	5,508,246	6,091,462	11,448,380	11,979,970
<b>Gross profit</b>	1,481,423	1,616,291	3,142,497	3,287,740
<b>Operating expenses</b>				
Selling, general and administrative (note 11)	1,196,821	1,311,381	2,455,714	2,733,708
<b>Earnings before undernoted items</b>	284,602	304,910	686,783	554,032
<b>Finance costs</b> (note 11)	(122,272)	(136,029)	(257,526)	(284,637)
<b>Earnings before provision for income tax</b>	162,330	168,881	429,257	269,395
Deferred income tax expense	49,959	-	127,554	-
<b>Net earnings and comprehensive income for the period</b>	112,371	168,881	301,703	269,395
<b>Earnings per share</b>				
Basic	0.00	0.01	0.01	0.01
Diluted	0.00	0.01	0.01	0.01
<b>Weighted average number of shares outstanding</b> (note 13)				
Basic	28,675,695	28,391,778	28,675,695	28,327,120
Diluted	28,675,695	28,404,505	28,675,695	28,338,204

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

**BluMetric Environmental Inc.**  
**Condensed Consolidated Statement of Cash Flows**  
**For the six months ended March 31, 2019 and 2018**

(expressed in Canadian dollars)  
(unaudited)

	For the three months ended		For the six months ended	
	March 31, 2019 \$	March 31, 2018 \$	March 31, 2019 \$	March 31, 2018 \$
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net earnings and comprehensive income for the period	112,371	168,881	301,703	269,395
Non-cash items				
Deferred income tax expense	49,959	-	127,554	-
Change in allowance for accounts receivable	20,524	-	18,308	-
Depreciation of property, plant and equipment	25,498	7,564	51,011	16,534
Amortization of intangible assets	748	12,330	1,838	54,837
Gain on disposal of property, plant and equipment	-	-	-	(9,500)
Gain on disposal of other assets	-	(8,786)	-	(8,786)
Gain on debt conversion	-	-	-	(10,233)
Amortization of deferred financing costs	3,113	-	6,226	-
Loss on debt extinguishment	-	23,056	-	23,056
Interest accretion on long-term debt	-	5,366	-	10,731
Share-based compensation (note 10)	12,661	9,997	27,059	17,671
Financing fees on debt prepayment	-	(20,480)	-	(20,480)
Withholding taxes on debt conversion	-	-	-	(30,396)
Changes in working capital items (note 12)	(89,955)	(390,950)	768,638	(311,333)
	134,919	(193,022)	1,302,337	1,496
<b>Investing activities</b>				
Acquisition of property, plant and equipment	-	(25,504)	(39,946)	(25,504)
Proceeds on disposal of other assets	-	103,786	-	103,786
	-	78,282	(39,946)	78,282

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

# BluMetric Environmental Inc.

## Condensed Consolidated Statement of Cash Flows ... *continued*

For the six months ended March 31, 2019 and 2018

(expressed in Canadian dollars)  
(unaudited)

	For the three months ended		For the six months ended	
	March 31, 2019 \$	March 31, 2018 \$	March 31, 2019 \$	March 31, 2018 \$
<b>Financing activities</b>				
Decrease in bank indebtedness	(114,185)	-	(1,249,892)	-
Proceeds from demand loan	-	974,111	-	974,111
Repayment of long-term debt	(6,955)	(1,006,575)	(13,911)	(1,010,987)
Repayment of demand loan	(12,500)	-	(25,000)	-
Repayment of due to shareholders	-	(4,800)	-	(9,800)
Increase in finance lease liability	-	-	29,089	-
Principal payments on finance leases	(1,279)	-	(2,677)	-
Share issuance costs	-	-	-	(5,530)
	(134,919)	(37,264)	(1,262,391)	(52,206)
<b>Change in cash and cash equivalents during the period</b>	-	(152,004)	-	27,572
Cash and cash equivalents – beginning of period	-	14,079	-	22,117
Bank indebtedness - beginning of period	(460,768)	(348,771)	(1,596,475)	(536,385)
Adjustment to bank indebtedness - beginning of period (note 17)	460,768	-	1,596,475	-
	-	(334,692)	-	(514,268)
Cash and cash equivalents – end of period	-	27,474	-	27,474
Bank indebtedness - end of period	(346,585)	(514,170)	(346,585)	(514,170)
Adjustment to bank indebtedness - end of period (note 17)	346,585	-	346,585	-
	-	(486,696)	-	(486,696)
<b>Supplementary information</b>				
Interest paid - included in operating activities	109,829	120,221	222,534	242,871

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

# **BluMetric Environmental Inc.**

## **Notes to Condensed Consolidated Interim Financial Statements**

**For the six months ended March 31, 2019**

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(expressed in Canadian dollars)  
(unaudited)

### **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 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 unaudited condensed consolidated interim financial statements have been prepared in compliance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34"). These unaudited condensed consolidated interim financial statements do not contain all the information and disclosures required for annual financial statements, and should be read in conjunction with the annual audited consolidated financial statements of the Company for the year ended September 30, 2018, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). In the opinion of the Company, the accompanying unaudited condensed consolidated interim financial statements contain only normal recurring adjustments that are necessary for a fair presentation for its financial position, changes in shareholders' equity, net earnings and comprehensive income, and cash flows for the interim period. The unaudited condensed consolidated interim balance sheet at March 31, 2019 was derived from the audited annual financial statements, but does not contain all of the footnote disclosures from the annual financial statements.

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

The consolidated financial statements were approved and authorized for issue by the Board of Directors on May 29th, 2019.

#### **Presentation and functional currency**

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

#### **Basis of measurement**

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

# **BluMetric Environmental Inc.**

## Notes to Condensed Consolidated Interim Financial Statements

**For the six months ended March 31, 2019**

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(expressed in Canadian dollars)  
(unaudited)

### **3 Accounting policies**

With the exception of the changes to accounting policies noted below, the accounting policies set out in the Company's most recent annual consolidated financial statements have been applied consistently to all periods presented in these condensed consolidated interim financial statements. As such, these condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements and related note disclosures for the year ended September 30, 2018.

### **4 Recent Accounting pronouncements and changes to accounting policies**

#### **a) IFRS 15 Revenue from contracts with customers**

Effective October 1, 2018, the Company has adopted IFRS 15 Revenue from Contracts with Customers (IFRS 15) using the modified retrospective approach. As a result, the after-tax cumulative effect of initially applying IFRS 15 is recognized as an adjustment to opening retained earnings at October 1, 2018. Comparative information has not been restated and continues to be reported under IAS 18 Revenue and IAS 11 Construction Contracts. The Company used the practical expedient to apply IFRS 15 only to contracts not completed at October 1, 2018. In addition, the Company used the practical expedient to reflect the aggregate effect of all contract modifications that occurred before October 1, 2018, for the purposes of identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price to the satisfied and unsatisfied performance obligations.

Adoption of IFRS 15 did not have an impact on the Company's consolidated net income, financial position, and cash flows however it has resulted in expanded disclosures. Revenue from the vast majority of the Company's contracts will continue to be recognized over time because of the continuous transfer of control to the customer. The impact to revenues from adopting IFRS 15 on transition as of October 1, 2018 and for the six months ended March 31, 2019 was immaterial.

The details of the Company's significant accounting policies, significant accounting judgments, estimates, and assumptions, and the quantitative impact of significant changes are disclosed below.

#### **Revenue recognition**

The Company provides professional services in the fields of environmental geosciences and engineering, industrial hygiene, occupational health and safety, renewable energy, water and waste water treatment, environmental contracting and environmental management. The Company's contracts are a mix between cost-reimbursable contracts that fall under the category of time and materials contracts with the remainder being fixed price contracts.

#### ***Cost-reimbursable contracts***

- Time and materials ("T&M") contracts are common for smaller scale professional and technical consulting and certification services projects. Under these types of contracts, there is no predetermined fee. Instead, the Company negotiates hourly billing rates and charges the clients based upon actual hours expended on a project. In addition, any direct project expenditures are passed through to the client and are typically reimbursed.



# **BluMetric Environmental Inc.**

## **Notes to Condensed Consolidated Interim Financial Statements**

**For the six months ended March 31, 2019**

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- T&M contracts with an initial ceiling or not-to-exceed price provision. These contracts are structured the same as T&M, however they typically include an initial price cap that can't be exceeded. In most cases, the Company can bill additional fees if the project schedule is modified and lengthened.

### **Fixed-price contracts**

- Fixed-unit price contracts typically require the performance of an estimated number of units of work at an agreed price per unit, with the total payment under the contract determined by the actual number of units performed.

### **Identification of a contract with a customer**

When determining the proper revenue recognition method for contracts, the Company evaluates whether two or more contracts should be combined and accounted for as one single contract and whether the combined or single contract should be accounted for as more than one performance obligation. This evaluation requires significant judgment and the decision to combine a group of contracts or to separate a single contract into multiple performance obligations could affect the amount of revenue and profit recorded in a given period. The Company accounts for a contract when it has commercial substance, the parties have approved the contract in accordance with customary business practices and are committed to their obligations, the rights of the parties and payment terms are identified, and collectability of consideration is probable.

### **Identifying performance obligations in a contract and allocating revenue**

For most of the Company's contracts, the customer contracts with the Company to provide a significant service of integrating a complex set of tasks and components into a single project. Consequently, the entire contract is accounted for as one performance obligation. Less frequently, however, the Company may provide several distinct goods or services as part of a contract, in which case the Company separates the contract into more than one performance obligation. If a contract is separated into more than one performance obligation, the total transaction price is allocated to each performance obligation in an amount based on the estimated relative standalone selling price of the promised goods or services underlying each performance obligation. The expected cost plus a margin approach is typically used to estimate the standalone selling price of each performance obligation. To determine the appropriate margin, management considers margins for comparable services under similar contracts in similar markets.

### **Determining the transaction price**

Variable consideration for fixed fee contracts or T&M contracts with a ceiling, related to change orders approved as to scope but unapproved as to price, is included in estimated revenue to the extent it is highly probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. The Company estimates variable consideration at the most likely amount it expects to be entitled. Estimates of variable consideration are based on historical experience, anticipated performance, and management's best judgment based on the information available at the time.

Contracts are often modified to account for changes in contract specifications and requirements. Contract modifications exist when the change either creates new, or changes existing, enforceable rights and obligations. Most of the Company's contract modifications are for goods or services that are not distinct from the existing contract due to the significant integration service provided in the context of the contract and are accounted for as if they were part of that existing contract. The effect of these contract modifications on the transaction price and the measure of progress for the performance obligation to which it relates, is recognized as a cumulative adjustment to revenue as either an increase or decrease in revenue. However, if a contract modification is for distinct goods and services from the existing contract and the pricing of the contract modification reflects the

# **BluMetric Environmental Inc.**

## **Notes to Condensed Consolidated Interim Financial Statements**

**For the six months ended March 31, 2019**

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(expressed in Canadian dollars)  
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standalone selling pricing of the additional goods or services, then the contract modification is treated as a separate contract.

Due to the nature of many of the Company's performance obligations, the estimation of total revenue and costs at completion is complex, subject to many variables, and requires significant judgment. These areas of measurement uncertainty are discussed further in the Critical accounting judgments, estimates and assumptions section. Any changes to the estimates of forecasted revenue and total costs are recognized on a cumulative basis, which recognizes in the current period the cumulative effect of the changes based on a performance obligation's percentage of completion. A significant change in one or more of these estimates could affect the profitability of one or more of the Company's performance obligations.

When estimates of total costs to be incurred on a performance obligation exceed the total estimated revenue to be earned, a provision for the entire loss on the performance obligation is recognized in the period the loss is determined.

### **Performance obligations satisfied over time**

The Company typically transfers control of goods or services, and satisfies performance obligations, over time. Therefore, the Company recognizes revenue over time as these performance obligations are satisfied. This continuous transfer of control to the customer is often supported by the customer's physical possession or legal title to the work in process, as well as contractual clauses that provide the Company with a present right to payment for work performed to date plus a reasonable profit in the event a customer unilaterally terminates the contract for convenience. As a result of control transferring over time, revenue, for fixed fee contracts and T&M contracts with a ceiling is recognized based on the extent of progress towards completion of the performance obligation. The Company generally uses the cost-to-cost measure of progress for its contracts because it best reflects the transfer of an asset to the customer which occurs as costs are incurred on the contract. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenues, including estimated fees or profits, are recorded proportionally as costs are incurred. Costs to fulfill contracts may include labour, materials, subcontractor, and other direct costs, as well as an allocation of indirect costs.

For the Company's T&M contracts without a ceiling, the Company applies the as-invoiced practical expedient, which permits the Company to recognize revenue in the amount to which the Company has the right to invoice for services performed.

### **Contract Costs**

Costs to pursue a contract that would have been incurred regardless of whether the contract was awarded are recognized as an expense when incurred. The Company does not typically incur material contract acquisition costs requiring capitalization.

Certain fulfillment and mobilization costs are deferred when they relate directly to the contract or an anticipated contract and when they generate or enhance Company resources that will be used to satisfy performance obligations in the future. Deferred contract costs are typically amortized over the period of expected benefit using the percentage of completion applied to estimated revenue. The Company does not typically incur upfront fulfillment and mobilization costs.

### **Presentation of Contract Balances**

Accounts receivables are amounts billed and currently due from customers. The amounts due are stated at their net estimated realizable value. The Company maintains an allowance for doubtful accounts to provide for the estimated amount of receivables and contract assets that will not be collected in accordance with IFRS 9.

# **BluMetric Environmental Inc.**

## **Notes to Condensed Consolidated Interim Financial Statements**

**For the six months ended March 31, 2019**

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(expressed in Canadian dollars)  
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Unbilled revenue represents revenue earned from performance in excess of amounts billed on uncompleted contracts where the right to payment is unconditional. Unbilled revenue typically results from timing differences between satisfaction of a performance obligation where the right to payment is unconditional and invoicing from T&M contracts.

Contract assets arise when the Company satisfies performance obligations but its unconditional right to payment is determined by different contract milestones. Contract assets typically result from sales under fixed fee contracts when the cost-to-cost method of revenue recognition is utilized and revenue recognized exceeds invoicing.

Unbilled revenue and contract assets may not exceed their net realizable value and are classified as current assets.

Deferred revenue represents the excess of amounts billed to customers over revenue earned on uncompleted contracts.

Unbilled revenue, contract assets and deferred revenue are reported on a contract-by-contract basis at the end of each reporting period.

The operating cycle, or duration, of some of the Company's contracts exceeds one year. All contract related assets and liabilities are classified as current as they are expected to be realized or satisfied within the operating cycle of the contract.

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

The Company accounts for its revenue from fixed-fee and variable-fee-with-ceiling contracts (i.e. T&M contracts with a cap) using the percentage of completion method, which requires estimates to be made for contract costs and revenues.

Contract costs include direct labor, direct materials, and direct costs for subcontractors, and other expenditures that are recoverable directly from clients. Progress on jobs is regularly reviewed by management and estimated costs to complete are revised based on the information available at the end of each reporting period. Contract cost estimates are based on various assumptions which can result in a change to contract profitability from one financial reporting period to another, including labor productivity and availability, the complexity of the work to be performed, the cost and availability of materials, the performance of material suppliers to deliver on time, the performance of subcontractors, differing site conditions, unusual weather conditions, and the accuracy of original bid estimates. Estimating total costs is subjective and requires management's best judgments based on the information available at that time.

On an ongoing basis, estimated revenue is updated to reflect the amount of consideration the Company expects to be entitled to in exchange for providing goods and services. Revenue estimates are affected by various uncertainties that depend on the outcome of future events, including change orders.

Change orders are included in estimated revenue when management believes the Company has an enforceable right to the change order, the amount can be estimated reliably, and realization is highly probable. To evaluate these criteria, management considers the contractual or legal basis for the change order, the cause of any additional costs incurred, and the history of favourable negotiations for similar amounts. As change orders are not recognized until highly probable, it is possible for the Company to have substantial contract costs recognized in one accounting period with associated revenue or reductions in cost recognized in a later period.

# **BluMetric Environmental Inc.**

## **Notes to Condensed Consolidated Interim Financial Statements**

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For certain consulting contracts, the Company exercises judgment when determining if the Company is acting as a principal or an agent in the context of the particulars of the underlying contracts. Specifically, in the new standard, the Company must first identify the specific good or service to be provided and whether it controls the specified good or service before reviewing the standard's principal indicators. If it is determined the Company is acting in the capacity of an agent, the revenue recorded would be net of direct costs.

### **b) IFRS 9 Financial Instruments (“IFRS 9”)**

On October 1, 2018, the Company adopted IFRS 9 Financial Instruments (“IFRS 9”) in place of IAS 39 Financial Instruments: Recognition and Measurements (“IAS 39”). In accordance with the transitional provision, the Company applied IFRS 9 on a modified retrospective basis, electing not to restate the prior year comparative consolidated financial statements which are reported under IAS 39 and therefore not comparable to the current year's financial statements.

The adoption of IFRS 9 has resulted in a change in accounting policy in two areas, classification and measurement and impairment.

#### **Classification and measurement**

IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. Under IFRS 9 all financial instruments are initially measured at fair value which is consistent with IAS 39. Subsequent to initial recognition, all financial assets, including hybrid contracts, are measured at fair value through profit or loss (“FVTPL”), fair value through other comprehensive income (“FVOCI”) or amortized cost. For financial liabilities, IFRS 9 is substantially the same as was previously included in IAS 39. Financial assets are reclassified between measurement categories only when the business model for managing them changes. All reclassifications are applied prospectively from the reclassification date.

The IFRS 9 classification and measurement model requires that all debt instrument financial assets that do not meet a solely payment of principal and interest (“SPPI”) test to be classified at initial recognition as FVTPL. The SPPI test is conducted to identify whether the contractual cash flows of a financial instrument are solely payments of principal and interest. For debt instrument financial assets that meet the SPPI test, classification at initial recognition is determined based on the business model under which these instruments are managed. Debt instruments that are managed on a held for trading or fair value basis are classified as FVTPL. Debt instruments that are managed on a hold to collect and for sale basis are classified as FVOCI. Debt instruments that are managed on a hold to collect basis are classified as amortized cost.

All equity instrument financial assets are classified at initial recognition as FVTPL unless they are not held for short-term profit taking intent and an irrevocable designation is made to classify the instrument as FVOCI for equities.

# **BluMetric Environmental Inc.**

## **Notes to Condensed Consolidated Interim Financial Statements**

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(expressed in Canadian dollars)  
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As a result of the adoption of IFRS 9, the fair value through profit or loss, available-for-sale (“AFS”), held-to-maturity (“HTM”), and loans and receivables have been replaced with the following classifications:

- **Amortized cost:** Financial assets measured at amortized cost are debt financial instruments with contractual cash flows that meet the SPPI test and are managed on a hold to collect basis. These financial assets are recognized initially at fair value plus or minus direct and incremental transaction costs, and are subsequently measured at amortized cost, using the effective interest rate method, net of an allowance for expected credit losses.

Consistent with IAS 39, cash, accounts receivable, unbilled revenue and contract assets are recorded at amortized cost. These financial assets were previously classified as loans and receivables and other financial liabilities under IAS 39.

- **FVTPL:** Trading financial instruments are mandatorily measured at FVTPL as they are held for trading purposes or are part of a managed portfolio with a pattern of short-term profit taking. Non-trading financial assets are also mandatorily measured at fair value if their contractual cash flow characteristics do not meet the SPPI test or if they are managed together with other financial instruments on a fair value basis. Trading and non-trading financial instruments valued at FVTPL are remeasured at fair value as at the statement of financial position date.

Financial instruments may be designated at FVTPL that would otherwise fall into a different accounting category. As was the case under IAS 39, the FVTPL designation, once made, is irrevocable and can only be applied if reliable fair values are available.

Consistent with IAS 39, the Company does not have any financial assets that are measured at FVTPL.

- **FVOCI:** Debt financial instruments measured at FVOCI are non-derivative financial assets with contractual cash flows that meet the SPPI test and are managed on a hold to collect and for sale basis. Subsequent measurement of debt instruments classified at FVOCI under IFRS 9 operates in a similar manner to AFS debt securities under IAS 39, except that the expected credit loss (“ECL”) impairment model must be applied to these instruments under IFRS 9. As a result, FVOCI debt instruments are measured initially at fair value, plus direct and incremental transaction costs. Subsequent to initial recognition, FVOCI debt instruments are remeasured at fair value through OCI, with the exception that both related foreign exchange gains or losses and changes in ECL allowances are recognized in the statement of net earnings and comprehensive income.

Consistent with IAS 39, the Company does not have any financial assets that are measured at FVOCI.

The adoption of IFRS 9 did not have an impact on the Company’s classification and measurement of financial assets and liabilities and on adoption on October 1, 2018, there was no change in the carrying value of the financial instruments on transition from IAS 39.

# BluMetric Environmental Inc.

## Notes to Condensed Consolidated Interim Financial Statements

For the six months ended March 31, 2019

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(expressed in Canadian dollars)  
(unaudited)

### Impairment

Impairment of financial assets under IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss (“ECL”) model. The new impairment model applies to financial assets measured at amortized cost, contract assets, lease receivables, debt investments measured at FVOCI, loan commitments that are not designated as FVTPL and financial guarantee contracts not designated as FVTPL. The Company applies this model to its accounts receivable, unbilled revenue and contract assets. ECL allowances represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. Forward-looking information (“FLI”) is incorporated into the estimation of ECL allowances, which involves significant judgment. The calculation of ECL allowances is based on the expected value of the probability-weighted scenarios to measure expected cash shortfalls, discounted at the effective interest rate.

Under IFRS 9, all financial instruments on which repayment of principal or payment of interest is contractually 90 days in arrears or greater is automatically considered impaired. Any financial instruments where the borrower has filed for bankruptcy will also be considered to be impaired.

Financial instruments are written off, either partially or in full, against the related allowance for credit losses when there is evidence that there is no realistic prospect of future recovery.

For trade and other receivables, unbilled revenue and contract assets the Company applies the simplified approach permitted by IFRS 9, which requires lifetime ECLs to be recognized from initial recognition. The Company established a provision matrix that is based on its historical credit loss experience adjusted for forward-looking factors. The adoption of IFRS 9 has resulted in a \$43,139 increase in the Company’s unbilled revenue allowance, which has been charged as an increase against opening deficit, net of tax, as at October 1, 2018 as shown in the table below. As permitted under the modified retrospective approach, no adjustment to the comparative year has been made.

	<b>October 1, 2018</b>
<b>Opening deficit - IAS 39 <sup>(1)</sup></b>	\$ (933,517)
Increase in provision for unbilled revenue on customer contracts	(43,139)
<b>Opening deficit - IFRS 9</b>	<b>\$ (976,656)</b>

<sup>(1)</sup> Opening deficit before adoption of IFRS 9.

# **BluMetric Environmental Inc.**

## **Notes to Condensed Consolidated Interim Financial Statements**

**For the six months ended March 31, 2019**

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(expressed in Canadian dollars)  
(unaudited)

### **Future applicable accounting standards**

- Accounting standards issued but not yet applied

At the date of authorization of these condensed consolidated interim 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 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.

## Notes to Condensed Consolidated Interim Financial Statements

For the six months ended March 31, 2019

(expressed in Canadian dollars)  
(unaudited)

### 5 Accounts receivable and unbilled revenue

	March 31 2019 \$	September 30 2018 \$
Trade receivables	5,152,974	5,733,568
Other receivables	1,671	2,789
Allowance for doubtful accounts	(176,572)	(429,055)
	<u>4,978,073</u>	<u>5,307,302</u>

  

	March 31 2019 \$	September 30 2018 \$
Unbilled revenue	2,284,565	4,659,396
Allowance for doubtful accounts	(33,618)	-
	<u>2,250,947</u>	<u>4,659,396</u>

The Company applies the simplified approach to trade and other receivables and unbilled revenue, and recognizes a loss allowance provision based on lifetime ECLs. The loss allowance provision is based on the Company's historical collection and loss experience and incorporates forward looking factors, where appropriate.

The loss allowance provision for trade receivables and unbilled revenue as at March 31, 2019 is determined as follows:

	Current	1 to 30 days past due	31 to 60 days past due	61 to 90 days past due	More than 90 days past due	Total
Expected loss rate	0.57%	0.34%	0.44%	0.49%	58.21%	
Gross carrying amount	6,268,015	485,085	304,998	87,480	293,632	7,439,210
Allowance for doubtful accounts	35,876	1,628	1,331	426	170,929	210,190

At March 31, 2019, the ECL on trade and other receivables was \$176,572 and \$33,618 related to unbilled revenue.

During the quarter, \$278,462 in trade receivables were written off and the Company had a recovery of \$6,147 from the collection of trade receivables previously written off.



# BluMetric Environmental Inc.

## Notes to Condensed Consolidated Interim Financial Statements

For the six months ended March 31, 2019

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### 6 Credit facilities

As at March 31, 2019, the Company had drawn \$297,699 on its operating demand loan (September 30, 2018 - \$1,544,136) and it had drawn \$213,307 in outstanding letters of credit (September 30, 2018 - \$206,635). The letters of credit expire on July 26, 2019.

The Company has certain covenants in accordance with its short-term credit facilities. As at March 31, 2019, the Company was in compliance with all its covenants.

### 7 Trade and other payables

	March 31, 2019 \$	September 30, 2018 \$
Trade payables	1,127,268	2,345,899
Salaries and benefits payable	646,774	614,374
Other accrued liabilities and payables	870,946	662,519
	<hr/>	<hr/>
	2,644,988	3,622,792

As at March 31, 2019, other accrued liabilities and payables include amounts owing to key management personnel of \$nil (September 30, 2018 - \$nil) and directors of \$nil (September 30, 2018 - \$7,000).

As at March 31, 2019, there was \$273,845 (September 30, 2018 - \$72,619) owed to government agencies included in other accrued liabilities and payables.

### 8 Demand loan

	March 31, 2019 \$	September 30, 2018 \$
Demand loan, issued on March 28, 2018, net of deferred financing costs of \$24,595, bearing interest at prime rate (3.95% as at March 31, 2019) plus 2%, repayable in monthly principal instalments of \$4,167 plus interest, secured by land and building with a carrying value of \$160,687 (September 30, 2018 - \$189,864)	925,405	949,758

# BluMetric Environmental Inc.

## Notes to Condensed Consolidated Interim Financial Statements

For the six months ended March 31, 2019

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### 9 Long-term debt

	March 31, 2019 \$	September 30, 2018 \$
Term loan, net of deferred financing costs of \$27,893 (September 30, 2018- \$33,472), bearing interest at 10%, due in one instalment on September 12, 2021	2,472,107	2,466,528
Finance lease <sup>(1)</sup>	26,413	-
Restructured trade debt	245,806	259,718
	<hr/>	<hr/>
	2,744,326	2,726,246
Less: Current portion	57,554	27,823
	<hr/>	<hr/>
	2,686,772	2,698,423
	<hr/>	<hr/>

(1) The Company commenced a finance lease for a vehicle on October 1, 2018. It is repayable in 60 monthly installments of principal and interest of \$556. The lease bears interest at 5.7% per annum and is secured by the underlying vehicle.

### 10 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-based compensation

The fair value of options vested is recognized as compensation cost. During the six months ended March 31, 2019, the Company recognized \$27,059 (six months ended March 31, 2018 \$17,671) in share compensation expense.

# BluMetric Environmental Inc.

## Notes to Condensed Consolidated Interim Financial Statements

**For the six months ended March 31, 2019**

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### 11 Other expense items

	For the three months ended		For the six months ended	
	March 31, 2019 \$	March 31, 2018 \$	March 31, 2019 \$	March 31, 2018 \$
Personnel	3,368,766	3,431,242	6,579,546	6,982,755
Materials	2,620,957	2,986,760	5,813,804	5,827,499
Consulting	10,967	45,577	82,849	100,953
Sub-contractors	8,653	10,449	23,083	41,802
Depreciation and amortization	26,246	19,893	52,849	71,370
Other operating expense	669,478	908,922	1,351,963	1,689,299
	<u>6,705,067</u>	<u>7,402,843</u>	<u>13,904,094</u>	<u>14,713,678</u>
<b>Reported as:</b>				
Cost of sales	5,508,246	6,091,462	11,448,380	11,979,970
Selling, general and administrative	1,196,821	1,311,381	2,455,714	2,733,708
	<u>6,705,067</u>	<u>7,402,843</u>	<u>13,904,094</u>	<u>14,713,678</u>
Finance costs				
Restructured debt	4,659	4,507	8,970	9,416
Term loans, bank loans and line of credit	104,294	89,726	211,814	184,154
Mortgage		25,082		47,496
Bank charges	7,884	6,533	22,423	20,362
Other finance charges	5,435	10,181	14,319	23,209
	<u>122,272</u>	<u>136,029</u>	<u>257,526</u>	<u>284,637</u>

### 12 Changes in working capital balances

	For the three months ended		For the six months ended	
	March 31, 2019 \$	March 31, 2018 \$	March 31, 2019 \$	March 31, 2018 \$
Accounts receivable	(219,953)	160,437	310,921	(875,021)
Unbilled revenue	832,640	415,115	2,365,311	1,622,951
Contract asset	(363,374)	-	(877,589)	-
Prepaid expenses	50,224	(16,087)	85,822	(227,896)
Trade and other payables	(265,671)	(310,936)	(977,804)	(826,195)
Deferred revenue	(123,821)	(639,479)	(138,023)	(5,172)
	<u>(89,955)</u>	<u>(390,950)</u>	<u>768,638</u>	<u>(311,333)</u>

# BluMetric Environmental Inc.

## Notes to Condensed Consolidated Interim Financial Statements

**For the six months ended March 31, 2019**

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(expressed in Canadian dollars)  
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### 13 Earnings per share

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

	<u>For the three months ended</u>		<u>For the six months ended</u>	
	<u>March 31, 2019</u>	<u>March 31, 2018</u>	<u>March 31, 2019</u>	<u>March 31, 2018</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Issued common shares	28,675,695	28,391,778	28,675,695	28,391,778
Weighted average number of basic common shares	28,675,695	28,391,778	28,675,695	28,327,120
Effect of share options on issuance	-	12,727	-	11,084
Weighted average number of diluted common shares	<u>28,675,695</u>	<u>28,404,505</u>	<u>28,675,695</u>	<u>28,338,204</u>

Options that were anti-dilutive are not included in the computation of diluted common shares. For the six months ended March 31, 2019, 1,722,875 options were excluded from the calculation because they were anti-dilutive (six months ended March 31, 2018 –1,434,875).

### 14 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.

# BluMetric Environmental Inc.

## Notes to Condensed Consolidated Interim Financial Statements

**For the six months ended March 31, 2019**

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

	<u>For the three months ended</u>		<u>For the six months ended</u>	
	<b>March 31, 2019</b>	<b>March 31, 2018</b>	<b>March 31, 2019</b>	<b>March 31, 2018</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Canada	6,939,296	6,416,731	14,378,369	13,720,832
International	50,373	735,949	172,413	955,165
United States	-	555,073	40,095	591,713
	<b>6,989,669</b>	<b>7,707,753</b>	<b>14,590,877</b>	<b>15,267,710</b>

For the six months ended March 31, 2019, approximately 53% (2018 -34%) was derived from three clients, all 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).

## 15 Related party transactions

### Compensation of key management personnel

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

	<u>For the three months ended</u>		<u>For the six months ended</u>	
	<b>March 31, 2019</b>	<b>March 31, 2018</b>	<b>March 31, 2019</b>	<b>March 31, 2018</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Salaries <sup>(1)</sup>	252,108	205,846	503,171	667,744
Short-term benefits	37,144	17,552	58,073	38,000
Share-based compensation	12,661	9,997	27,059	17,671
	<b>301,913</b>	<b>233,395</b>	<b>588,303</b>	<b>723,415</b>

(1) For the six months ended March 31, 2018, salaries includes \$250,000 pursuant to an employment contract with one of the Company's key management personnel whose term ended on November 30, 2017.

# BluMetric Environmental Inc.

## Notes to Condensed Consolidated Interim Financial Statements

For the six months ended March 31, 2019

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(expressed in Canadian dollars)  
(unaudited)

### 16 Revenue

The Company provides professional consulting services in the fields of environmental geosciences and engineering, industrial hygiene, occupational health and safety, renewable energy, water and waste water treatment, environmental contracting and environmental management predominately in Canada.

#### Disaggregation of revenue

In the following table, gross revenue from contracts with customers is disaggregated by customer segment and reconciled to the Company's gross revenue by geographical segmentation per Note 14.

	For the three months ended		For the six months ended	
	March 31, 2019	March 31, 2018	March 31, 2019	March 31, 2018
	\$	\$	\$	\$
Commercial & Industrial	1,637,048	2,824,718	3,842,744	4,983,355
Government	1,899,279	2,373,475	3,613,993	4,491,872
Military	2,633,642	1,070,039	4,966,502	2,309,886
Mining	819,700	1,439,521	2,167,638	3,482,597
	<u>6,989,669</u>	<u>7,707,753</u>	<u>14,590,877</u>	<u>15,267,710</u>

### 17 Comparative figures

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