

BLUMETRIC ENVIRONMENTAL INC.

CONDENSED UNAUDITED INTERIM FINANCIAL STATEMENTS

**FOR THE THREE MONTHS ENDED
DECEMBER 31, 2022**



About Us

BluMetric Environmental Inc. is a publicly traded environmental consulting and water cleantech company. We provide complete solutions to challenges such as water purification, protecting environments, and ensuring health and safety for Industrial/Commercial, Mining, Government, and Military clients.

BluMetric has more than 170 employees operating in ten offices and over 40 years of expertise. From remote northern mines to urban workplaces, we deliver with an interdisciplinary team best suited to solving unique challenges.

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

The accompanying condensed 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 Chartered Professional Accountants of Canada for a review of condensed interim financial statements by an entity's auditor.

HEAD OFFICE
BluMetric Environmental Inc.
1682 Woodward Dr,
Ottawa, ON K2C 3R8
Canada

BluMetric Environmental Inc.
Condensed Unaudited Interim Statements of Financial Position
As at December 31, 2022 and September 30, 2022

(expressed in Canadian dollars)

	December 31, 2022	September 30, 2022
	\$	\$
Current assets		
Cash and cash equivalents (note 4)	4,070,671	4,911,423
Accounts receivable (note 5)	6,097,176	7,565,177
Unbilled revenue	3,312,489	2,376,215
Contract assets	4,237,040	2,777,768
Prepaid expenses	481,521	291,921
	<u>18,198,897</u>	<u>17,922,504</u>
Non-current assets		
Property and equipment	154,467	168,710
Intangible assets	67,349	72,644
Right-of-use assets (note 6)	1,713,842	774,532
Deferred income tax assets	561,332	731,153
	<u>2,496,990</u>	<u>1,747,039</u>
	<u>20,695,887</u>	<u>19,669,543</u>
Current liabilities		
Trade and other payables (note 8)	5,180,458	5,905,070
Contract liabilities	631,040	243,035
Current portion of lease liabilities (note 6)	490,833	363,984
Current portion of long-term debt (note 9)	502,400	498,303
	<u>6,804,731</u>	<u>7,010,392</u>
Non-current liabilities		
Lease liabilities (note 6)	1,283,629	467,512
Long-term debt (note 9)	695,960	823,107
	<u>1,979,589</u>	<u>1,290,619</u>
	<u>8,784,320</u>	<u>8,301,011</u>
Shareholders' Equity		
Share capital	5,796,819	5,796,819
Contributed surplus and other equity	764,522	677,298
Retained earnings	5,350,226	4,894,415
	<u>11,911,567</u>	<u>11,368,532</u>
	<u>20,695,887</u>	<u>19,669,543</u>

Approved by the Board of Directors

 "Ian Mor Macdonald"
 Ian Mor Macdonald

Director

 "Jeffrey Talley"
 Jeffrey Talley

Director

BluMetric Environmental Inc.

Condensed Unaudited Interim Statements of Changes in Shareholders' Equity For the three months ended December 31, 2022 and 2021

(expressed in Canadian dollars)

	Common shares #	Share capital \$	Contributed surplus and other equity \$	Retained earnings (deficit) \$	Total \$
Balance – October 1, 2021	28,895,695	5,600,081	690,584	3,571,365	9,862,030
Share-based compensation	-	-	4,699	-	4,699
Exercise of stock options (note 10)	500,000	186,919	(66,919)	-	120,000
Net earnings and comprehensive income for the period	-	-	-	552,201	552,201
Balance – December 31, 2021	29,395,695	5,787,000	628,364	4,123,566	10,538,930
Balance – October 1, 2022	29,435,695	5,796,819	677,298	4,894,415	11,368,532
Share-based compensation (note 10)	-	-	87,224	-	87,224
Net earnings and comprehensive income for the period	-	-	-	455,811	455,811
Balance – December 31, 2022	29,435,695	5,796,819	764,522	5,350,226	11,911,567

BluMetric Environmental Inc.

Condensed Unaudited Interim Statements of Net Earnings and Comprehensive Income For the three months ended December 31, 2022 and 2021

(expressed in Canadian dollars)

	For the three months ended	
	December 31, 2022	December 31, 2021
	\$	\$
Revenue (notes 14, 15)	10,478,025	7,816,254
Cost of sales (note 12)	8,149,017	5,771,339
Gross profit	2,329,008	2,044,915
Operating expenses and other items Selling, general and administrative (note 12)	1,552,902	1,265,374
Operating profit	776,106	779,541
Finance costs (note 12)	21,459	32,650
Earnings before income taxes	754,647	746,891
Income tax expense (note 11)	298,836	194,690
Net earnings and comprehensive income for the period	455,811	552,201
Earnings per share		
Basic	0.02	0.02
Diluted	0.02	0.02
Weighted average number of shares outstanding (note 13)		
Basic	29,435,695	29,064,173
Diluted	29,435,695	29,228,459

BluMetric Environmental Inc.
Condensed Unaudited Interim Statements of Cash Flows
For the three months ended December 31, 2022 and 2021

(expressed in Canadian dollars)

	For the three months ended	
	December 31, 2022	December 31, 2021
	\$	\$
Cash provided by (used in)		
Operating activities		
Net earnings and comprehensive income for the period	455,811	552,201
Non-cash items		
Deferred income tax expense (note 11)	169,821	155,940
Increase (decrease) in credit loss allowance (note 5)	30,668	(2,084)
Depreciation of property and equipment	14,243	17,059
Amortization of intangible assets	5,295	3,569
Amortization of right-of-use assets (note 6)	124,207	112,241
Share-based compensation (note 10)	87,224	4,699
Change in working capital balances	(1,484,420)	(1,030,538)
	<u>(597,151)</u>	<u>(186,913)</u>
Investing activities		
Acquisition of property and equipment	-	(45,611)
Acquisition of intangible assets	-	(3,601)
	<u>-</u>	<u>(49,212)</u>
Financing activities		
Repayment of long-term debt	(123,050)	(249,475)
Principal payments on leases (note 6)	(120,551)	(111,473)
Exercise of stock options (note 10)	-	120,000
	<u>(243,601)</u>	<u>(240,948)</u>
Change in cash and cash equivalents during the period	(840,752)	(477,073)
Cash and cash equivalents – Beginning of period	4,911,423	4,727,420
Cash and cash equivalents – End of period	<u>4,070,671</u>	<u>4,250,347</u>
Supplementary information		
Interest paid	10,500	14,465
Income taxes paid	127,395	32,246

BluMetric Environmental Inc.

Notes to Condensed Unaudited Interim Financial Statements

For the three months ended December 31, 2022 and 2021

(expressed in Canadian dollars)

1. Nature of operations

BluMetric Environmental Inc. (the Company) is an integrated product and service organization providing sustainable solutions to complex environmental issues in Canada and abroad. The Company serves customers 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 1682 Woodward Drive Ottawa, Ontario, Canada K2C 3R8. 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 condensed unaudited interim financial statements have been prepared in compliance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34"). These condensed unaudited 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 financial statements of the Company for the year ended September 30, 2022, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB) and the interpretations of the IFRS Interpretations Committee.

Authorization of financial statements

The condensed interim financial statements were approved and authorized for issue by the Board of Directors on February 28, 2023.

Presentation and functional currency

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

Basis of measurement

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

Critical accounting judgments and estimates

The preparation of these condensed unaudited interim financial statements requires management to make judgments, estimates, and assumptions that affect the reported amounts of the Company's assets, liabilities, revenue, and expenses during the reporting period presented. The significant judgments made by management when applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Company's September 30, 2022 annual financial statements.

BluMetric Environmental Inc.
Notes to Condensed Unaudited Interim Financial Statements
For the three months ended December 31, 2022 and 2021

(expressed in Canadian dollars)

Standards, amendments and interpretations adopted in the current year

At the date of authorization of these unaudited condensed interim financial statements, the following new standards, amendments and interpretations to existing standards were required to be and have been adopted by the Company. There was no material impact from adoption of these standards, amendments and interpretations on these unaudited condensed interim financial statements.

IFRS 16 – ‘rent concessions amendment’ (“IFRS16”) originally issued May 2020 was extended by one year. This amendment provides lessees with an exemption from assessing whether a COVID-19 related rent concession is a lease modification.

IAS 37 – Provisions, Contingent Liabilities, and Contingent Assets (“IAS 37”) was amended. The amendments clarify that when assessing if a contract is onerous, the cost of fulfilling the contract includes all costs that relate directly to the contract. Such costs include both the incremental costs of the contract and an allocation of other direct costs incurred on activities required to fulfill the contract. The adoption of this standard had no material impact on the Company.

IAS 16 – Property, Plant and Equipment (“IAS 16”) was amended. The amendments introduce new guidance, such that the proceeds from selling items before the related property, plant and equipment is available for its intended use can no longer be deducted from the cost. Instead, such proceeds are to be recognized in profit or loss, together with the costs of producing those items. The adoption of this standard had no material impact on the Company.

3. Summary of significant accounting policies

With the exception of adapting an accounting policy note for cash and cash equivalents (see below), 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 unaudited interim financial statements. As such, these condensed unaudited interim financial statements should be read in conjunction with the annual financial statements and related note disclosures for the year ended September 30, 2022, except for cash and cash equivalents.

Cash and cash equivalents

The Company considers all short-term, highly liquid investments that are readily convertible to a known amount of cash, with original maturities at their acquisition date of three months or less, to be cash equivalents.

BluMetric Environmental Inc.
Notes to Condensed Unaudited Interim Financial Statements
For the three months ended December 31, 2022 and 2021

(expressed in Canadian dollars)

4. Cash and cash equivalents

	December 31, 2022	September 30, 2022
	\$	\$
Cash	3,070,671	4,911,423
Short-term investments	1,000,000	-
	<u>4,070,671</u>	<u>4,911,423</u>

5. Accounts receivable

	December 31, 2022	September 30, 2022
	\$	\$
Trade and other receivables	6,404,087	7,841,420
Credit loss allowance – accounts receivable	(306,911)	(276,243)
	<u>6,097,176</u>	<u>7,565,177</u>

BluMetric Environmental Inc.
Notes to Condensed Unaudited Interim Financial Statements
For the three months ended December 31, 2022 and 2021

(expressed in Canadian dollars)

6. Right-of-use assets and lease liabilities

Information about leases for which the Company is a lessee are presented below:

Right-of-use assets

	<u>For the three months ended December 31, 2022</u>				<u>For the three months ended December 31, 2021</u>			
	<u>Office</u>	<u>Vehicles</u>	<u>IT equipment</u>	<u>Total</u>	<u>Office</u>	<u>Vehicles</u>	<u>IT equipment</u>	<u>Total</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Balance – Beginning of period	700,220	25,889	48,423	774,532	580,882	4,495	23,427	608,804
Additions	1,063,517	-	-	1,063,517	59,467	-	-	59,467
Impairment	-	-	-	-	-	-	(17,570)	(17,570)
Amortization	(116,542)	(2,284)	(5,381)	(124,207)	(104,699)	(1,685)	(5,857)	(112,241)
Balance – End of period	<u>1,647,195</u>	<u>23,605</u>	<u>43,042</u>	<u>1,713,842</u>	<u>535,650</u>	<u>2,810</u>	<u>-</u>	<u>538,460</u>

BluMetric Environmental Inc.
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For the three months ended December 31, 2022 and 2021

(expressed in Canadian dollars)

Lease liabilities

	For the three months ended December 31, 2022				For the three months ended December 31, 2021			
	Office	Vehicles	IT equipment	Total	Office	Vehicles	IT equipment	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Balance – Beginning of period	755,699	26,380	49,416	831,495	639,251	4,762	24,462	668,475
Additions	1,063,517	-	-	1,063,517	59,467	-	-	59,467
Lease renewals, reassessments and modifications	-	-	-	-	-	-	(18,500)	(18,500)
Interest expense on lease liabilities	22,783	186	661	23,630	12,961	32	339	13,332
Payments	(135,903)	(2,424)	(5,853)	(144,180)	(116,634)	(1,862)	(6,301)	(124,797)
Balance – End of period	<u>1,706,096</u>	<u>24,142</u>	<u>44,224</u>	<u>1,774,462</u>	<u>595,045</u>	<u>2,932</u>	<u>-</u>	<u>597,977</u>
Current portion of lease liabilities				<u>490,833</u>				<u>381,412</u>
Non-current portion of lease liabilities				<u>1,283,629</u>				<u>216,565</u>

BluMetric Environmental Inc.
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For the three months ended December 31, 2022 and 2021

(expressed in Canadian dollars)

Lease liabilities are discounted using the Company's incremental borrowing rate at the lease commencement date for each lease. For the three months ended December 31, 2022, this rate is 7.2% (2022: 5.95%).

The Company leases buildings for its office spaces across Canada. Lease terms range from one to five years. To provide operational flexibility, the Company seeks to include extension or termination options in its leases. At the commencement of a lease, the Company assesses whether it is reasonably certain it will exercise the lease extension option (or not exercise a termination option). The Company reassesses this when a significant event or significant change in circumstances within the Company's control has occurred.

The Company leases vehicle and office equipment with terms of three to five years. These leases do not usually contain extension options, purchase options, or residual value guarantees. The Company also leases IT equipment and other equipment with terms of one to five years. These leases are generally short-term or for low-value assets that the Company has elected not to recognize in right-of-use assets and lease liabilities.

	For the three months ended	
	December 31, 2022	December 31, 2021
	\$	\$
Amounts recognized in selling, general and administrative		
Rent expense – variable lease payments	57,314	55,679
Expense related to short-term leases	47,033	56,035
Expense related to low-value assets	17,059	18,490
Income from subleases	(2,500)	(2,461)
	<u>118,906</u>	<u>127,743</u>

	For the three months ended	
	December 31, 2022	December 31, 2021
	\$	\$
Amounts recognized in the statements of cash flow		
Cash payments for the interest portion of lease liabilities	23,630	13,331
Cash payments for leases not included in the measurement of lease liabilities	<u>118,906</u>	<u>127,742</u>
Cash outflow in operating activities	142,536	141,073
Cash payments for the principal portion of lease liabilities included in financing activities	<u>120,551</u>	<u>111,473</u>
Total cash flow for leases	<u>263,087</u>	<u>252,546</u>

BluMetric Environmental Inc.
Notes to Condensed Unaudited Interim Financial Statements
For the three months ended December 31, 2022 and 2021

(expressed in Canadian dollars)

7. Credit facilities

The Company has a \$2,500,000 operating demand loan available to it as a shared limit between its overdraft facility and letters of credit. The Company has a maximum limit of \$500,000 for the issuance of letters of credit.

As at December 31, 2022, the Company had drawn \$nil on its operating demand loan and \$nil in letters of credit (September 30, 2022 – \$nil and \$nil, respectively).

The Company has certain covenants in accordance with its credit facilities. As at December 31, 2022, the Company was in compliance with all its covenants.

The Company also has a corporate credit card facility in the amount of \$250,000. As at December 31, 2022, the Company had utilized \$67,670 (September 30, 2022 – \$92,837) against this facility, which is recorded under trade and other payables in the statements of financial position.

8. Trade and other payables

	December 31, 2022	September 30, 2022
	\$	\$
Trade payables	3,072,714	3,336,901
Salaries and benefits payable	662,894	833,805
Other accrued liabilities and payables	1,444,850	1,734,364
	<u>5,180,458</u>	<u>5,905,070</u>

9. Long-term debt

	December 31, 2022	September 30, 2022
	\$	\$
Term loan, bearing interest at 3.28%	1,198,360	1,321,410
Less: Current portion	502,400	498,303
	<u>695,960</u>	<u>823,107</u>

BluMetric Environmental Inc.
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For the three months ended December 31, 2022 and 2021

(expressed in Canadian dollars)

On April 20, 2021, the Company entered into a letter of agreement with its bank for a \$2.0 million term loan. The term loan has a closed four-year term and carries an interest rate of 3.28% per annum with monthly blended payments of \$44,517 commencing May 31, 2021. This term loan matures April 30, 2025, is carried at amortized cost and is subject to the same covenants as the Company's credit facilities. As at December 31, 2022, the Company was in compliance with all its covenants.

10. Shareholders' equity

Share-based compensation

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

During the three months ended December 31, 2022, the Company recognized \$87,224 (2021 – \$4,699) in share-based compensation expense and no stock options were exercised (2021 - 500,000 options were exercised with an exercise price of \$0.24, a market price of \$0.72, and total proceeds of \$120,000).

11. Income tax

The following shows the components of income tax expense:

	For the three months ended	
	December 31, 2022	December 31, 2021
	\$	\$
Current tax expense	129,015	38,750
Deferred tax expense	169,821	155,940
	298,836	194,690

BluMetric Environmental Inc.
Notes to Condensed Unaudited Interim Financial Statements
For the three months ended December 31, 2022 and 2021

(expressed in Canadian dollars)

12. Other expense items by nature

	<u>For the three months ended</u>	
	December 31, 2022	December 31, 2021
	\$	\$
Personnel	3,760,918	3,401,040
Direct project expenses	4,952,320	2,815,102
Depreciation and amortization	143,745	132,869
Other operating expense	844,936	687,702
	<u>9,701,919</u>	<u>7,036,713</u>
Reported as:		
Cost of sales	8,149,017	5,771,339
Selling, general and administrative	1,552,902	1,265,374
	<u>9,701,919</u>	<u>7,036,713</u>
 Finance costs		
Interest on term loan and bank loans	10,500	14,465
Interest on leases	23,629	13,332
Bank charges	3,942	3,652
Other finance charges	(16,612)	1,201
	<u>21,459</u>	<u>32,650</u>

13. Weighted average shares outstanding

	<u>For the three months ended</u>	
	December 31, 2022	December 31, 2021
	\$	\$
Issued common shares	<u>29,435,695</u>	<u>29,395,695</u>
Weighted average number of basic common shares	29,435,695	29,064,173
Effect of share options on issuance	-	<u>164,286</u>
Weighted average number of diluted common shares	<u>29,435,695</u>	<u>29,228,459</u>

BluMetric Environmental Inc.
Notes to Condensed Unaudited Interim Financial Statements
For the three months ended December 31, 2022 and 2021

(expressed in Canadian dollars)

Options that were anti-dilutive are not included in the computation of diluted common shares. For the three months ended December 31, 2022, 2,757,000 options were excluded from the calculation because they were anti-dilutive (2021 – no options excluded).

14. Segmented disclosure

The Company provides comprehensive solution-based products and services in the fields of environmental geosciences and engineering, industrial hygiene, occupational health and safety, water and wastewater treatment and environmental management predominately in Canada.

The Company operates under one operating and reportable segment due to the integration between technical disciplines required to serve its customers.

The chief operating decision maker is (collectively) the Chief Executive Officer, the Chief Financial Officer and the Board of Directors. Performance is evaluated by the chief operating decision maker based on gross margin and is measured consistently with gross margin in the financial statements.

Geographical information

The Company operates principally in Canada (country of domicile). Sales reported by customer location based on origin of purchase (i.e., country of domicile of contracting party) are as follows:

	For the three months ended	
	December 31, 2022	December 31, 2021
	\$	\$
Canada	10,430,926	7,792,539
Other countries	47,099	23,715
	<u>10,478,025</u>	<u>7,816,254</u>

For the three months ended December 31, 2022, approximately 25% of revenue (2021 – 22%) was derived from two customers. The customers referenced below are not necessarily the same customers in both periods.

	For the three months ended	
	December 31, 2022	December 31, 2021
Customer 1	14%	11%
Customer 2	11%	11%

BluMetric Environmental Inc.
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(expressed in Canadian dollars)

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

15. Revenue

Disaggregation of revenue

Revenue is disaggregated by customer sector and contract type, since it best depicts how the nature, timing and uncertainty of revenue and cash flows are affected by economic factors.

Revenue from contracts with customers is disaggregated as follows:

	For the three months ended		
	December 31, 2022		
	\$		
	Fixed price	Time and	Total
	\$	materials	\$
		\$	\$
Commercial and industrial	838,583	3,921,056	4,759,639
Government	636,647	1,605,681	2,242,328
Military	799,692	428,842	1,228,534
Mining	670,045	1,577,479	2,247,524
	2,944,967	7,533,058	10,478,025
	December 31, 2021		
	\$		
	Fixed price	Time and	Total
	\$	materials	\$
		\$	\$
Commercial and industrial	895,918	2,186,857	3,082,775
Government	983,229	1,225,163	2,208,392
Military	439,502	707,514	1,147,016
Mining	21,930	1,356,141	1,378,071
	2,340,579	5,475,675	7,816,254

Revenue from the vast majority of the Company's contracts is recognized over time because of the continuous transfer of control to the customer. For the three months ended December 31, 2022, \$113,405 or 1% (2021 – \$355,124 or 5%) was recognized at a point in time, which primarily related to commercial sector customers.

BluMetric Environmental Inc.
Notes to Condensed Unaudited Interim Financial Statements
For the three months ended December 31, 2022 and 2021

(expressed in Canadian dollars)

16. Related party transactions

Compensation of key management personnel

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

	For the three months ended	
	December 31, 2022	December 31, 2021
	\$	\$
Salaries	343,217	239,250
Short-term benefits	24,892	23,921
Share-based compensation	46,233	4,699
	414,342	267,870

17. Liquidity risk

Liquidity risk is the risk the Company may not be able to meet its financial obligations as they come due. The Company currently settles all of its financial obligations out of cash and its operating demand loan facility. The ability to do so relies on the Company collecting its accounts receivable in a timely manner and by maintaining sufficient cash in excess of anticipated needs.

As at December 31, 2022, the Company had the following balances available on its credit facilities: operating demand loan – \$2,500,000; and credit card facility – \$182,330.

As at December 31, 2022, the Company had approximately \$6.8 million in availability between its operating line and cash balances.