

BLUMETRIC ENVIRONMENTAL INC.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED MARCH 31, 2023

(expressed in Canadian Dollars)

May 25, 2023



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 160 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.

May 25, 2023

This Management Discussion and Analysis "MD&A" explains the material changes in BluMetric Environmental Inc's ("BluMetric" or the "Company") financial condition and results of operations for the six months ended March 31, 2023. The MD&A should be read in conjunction with the Company's financial statements and related notes for the period ended March 31, 2023, as well as the MD&A and audited financial statements and notes for the year ended September 30, 2022. The information provided in this document is not intended to be a comprehensive review of all matters concerning the Company.

This discussion and analysis of the financial condition and the results of operations contain forward looking statements about expected future events and the financial and operating performance of the Company. These statements, which include descriptions of the Company's business strategy, potential variances impacting the Company's internal and external performance drivers, and the Company's ability to meet its ongoing working capital needs through the ensuing 12 months, are included in the "Discussion of Results of Operations", "Liquidity", and "Business Outlook" sections which follow. These statements are not guarantees of future performance and are subject to risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. This MD&A also refers to certain non-GAAP measures to assist users in assessing BluMetric's performance. Non-GAAP measures do not have any standard meaning prescribed by International Financial Reporting Standards ("IFRS") and are therefore unlikely to be comparable to similar measures presented by other issuers. These measures are identified and described under the section "Financial Terms and Definitions".

Business Overview and Strategy

BluMetric is a Canadian company that provides cost-effective and sustainable solutions to help its clients overcome even the most difficult environmental and business challenges. Through a track record that spans 45 years, the Company has evolved into a full-service integrator of environmental solutions known for innovative work in the fields of water/wastewater treatment and professional environmental services.

With a focus on four key markets —Commercial and Industrial; Government; Military and Mining; — BluMetric's main services and products include:

- Environmental Engineering, Monitoring and Compliance
- Site Assessment and Remediation
- Water Resources and Geomatics
- Cleantech – treatment of water and wastewater
- Industrial Hygiene and Occupational Health and Safety

BluMetric's comprehensive, affordable offerings are tailored to the specific needs of not only each industry, but also each client. With innovation, agility and client-responsive service as its hallmarks, the Company builds partnerships with its customers by delivering a long-term, holistic approach to managing their complete environmental needs, and health and safety responsibilities. It is this high degree of service that differentiates BluMetric from competitors.

BluMetric's team of approximately 160 dedicated and passionate employees and its client-centric approach form the underpinning of its success, contributing to the following core elements of its value proposition:

- Solution-oriented consultation, design, products and construction services
- Turn-key solutions – BluMetric provides a complete end-to-end solution from assessment and evaluation to implementation to ongoing service and management
- World class expertise in the analysis, management and treatment of water in the environment
- Water treatment solutions that are compact, energy efficient, reliable and simple to operate

The Company has 10 offices across Ontario, Quebec, Yukon and Northwest Territories. BluMetric is proud to be a trusted provider of services to many of Canada's northern Indigenous communities.

Technology and Innovation

Innovation is driven by client demands as they face more stringent environmental regulations and everchanging world events. BluMetric's creative process for addressing problems consists of developing solutions that are both scientifically sound and economically viable.

The Company is expanding its standard products for water and wastewater treatment, largely in response to the developing needs for emergency water and wastewater systems due to global climate change. Designs have recently been completed and prototyping phases have started for both a mid-sized Portable Water Treatment System as well as a Mobile Wastewater Treatment Plant. These resilient water solutions are highly flexible and cost efficient and allow for rapid deployments for temporary needs, such as mineral exploration and humanitarian relief. The prototype designs are based on BluMetric's mobile militarized systems which provide emergency potable water to almost any community in Canada for 90 days when there is a community facing potable water issues. The wastewater system includes state of the art filtration technology that is more rugged for deployments and has decreased operational and maintenance costs. Both prototypes are expected to be completed in the summer of 2023. The mobile Wastewater Treatment Plant is set to be tested in the DND IDEaS competition in August 2023 at CFB Suffield in Alberta.

BluMetric is committed to pursuing new opportunities in technology and innovation.

Sales and Marketing

BluMetric's business development efforts are primarily focused on four key markets where the Company has identified the greatest demand for its products and services:

- Commercial and Industrial
- Government (with specific expertise in Northern Canada)
- Military
- Mining

BluMetric uses a client-centric approach to business development, which involves an emphasis on understanding each client's environmental issues and then identifying and preventing potential problems. This approach allows BluMetric to provide a complete and integrated solution.

Satisfied clients provide repeat business as well as incredibly valuable word-of-mouth referrals. BluMetric continues to actively leverage the successes of past projects to expand and diversify client relationships, strategic partnerships, and service offerings.

Board of Directors

The Board currently consists of five members, three of whom are independent. The independent directors reflect a wide range of senior experience in the management of publicly traded and privately held companies. The Board members have expertise in business development, finance, operations, management, and governance.

Executive Management

The Senior Management team comprises: Scott MacFabe, Chief Executive Officer; Vivian Karaikos, Chief Financial Officer; Wayne Ingham, VP, Director of Strategic Business Development; and Andy Benson, VP, Director of Operations. This team has extensive business and environmental experience and is well supported by highly qualified and experienced managers.

Our People

The BluMetric team consists of approximately 160 experienced and motivated hydrogeologists, engineers, occupational and industrial hygienists, environmental auditors, environmental scientists, chemists, project managers, finance professionals, trades, and support personnel. They are experts in providing a comprehensive range of environmental services and engineered solutions, from contaminated site assessment and remediation to complete turn-key wastewater treatment systems.

Staffing levels fluctuate with the hiring of contract staff and students to meet project demands. The Company strives to recruit and retain highly skilled employees who can use their technical expertise to deliver creative solutions to complex environmental issues.

Diversity

BluMetric is committed to the principles of diversity. The Company strives to create and support an inclusive work environment that respects and values the contributions of all employees and their individual differences.

BluMetric's employees come from a wide range of cultural, ethnic, educational, and religious backgrounds. Additionally, women represent 50% of the workforce from welders and field technicians to the executive team and the Board of Directors. BluMetric's goal is to capitalize on the strength derived from diversity while affording its team members the greatest opportunity to excel, grow, and contribute to business and society.

Financial Highlights

	Three Months Ended		Six Months Ended	
	March 31, 2023 \$	March 31, 2022 \$	March 31, 2023 \$	March 31, 2022 \$
Revenue	7,413,985	8,213,772	17,892,010	16,030,026
Gross profit	1,544,470	1,801,767	3,873,478	3,846,682
Gross margin %	21%	22%	22%	24%
Operating expenses	1,388,497	1,453,779	2,941,399	2,719,154
Finance costs	21,140	23,905	42,599	56,555
Earnings before provision for income tax	134,833	324,083	889,480	1,070,973
Income tax expense	54,908	59,639	353,744	254,329
Net earnings	79,925	264,444	535,736	816,644
EBITDA ¹	317,445	469,402	1,237,296	1,381,683
Weighted average common shares outstanding – basic	29,435,695	29,395,695	29,435,695	29,310,530
Weighted average common shares outstanding – diluted	29,439,435	29,443,538	29,435,695	29,414,845
Earnings per share – basic and diluted	0.00	0.01	0.02	0.03
Total assets			18,715,203	16,694,512
Working capital			11,536,688	10,581,192
Non current liabilities			1,760,057	1,301,570
Shareholders' equity			12,080,040	10,807,954
Net cash ²			2,354,528	2,687,412

Note 1: EBITDA is a non-IFRS measure (see 'Financial Terms and Definitions') and is calculated as net income before interest expense, income taxes, depreciation, and amortization.

Note 2: Net cash is a non-IFRS measure and is calculated as cash less total debt excluding lease liabilities (see 'Financial Terms and Definitions').

Revenue Breakdown by Market

	Three Months Ended		Six Months Ended	
	March 31, 2023 \$	March 31, 2022 \$	March 31, 2023 \$	March 31, 2022 \$
Commercial and industrial	2,705,650	2,977,325	7,465,289	6,316,703
Government	1,782,351	1,999,477	4,024,678	4,155,228
Military	1,836,173	2,482,275	3,064,708	3,425,329
Mining	1,089,811	754,695	3,337,335	2,132,766
	7,413,985	8,213,772	17,892,010	16,030,026

Discussion of Results of Operations

- Revenue for the three and six months ended March 31, 2023 was \$7.4 million and \$17.9 million respectively (\$8.2 million and \$16.0 million for the three and six months ended March 31, 2022).
- For the three months ended March 31, 2023, revenue from the Commercial market was relatively consistent revenue for the same quarter last year. For the six months ended March 31, 2023, revenue increased by approximately \$1.1 million as a result of a large remediation project.
- Revenue from the Government market stayed relatively consistent both quarter over quarter and year to date.
- Revenue from the Mining market increased both for the quarter and also year to date when compared to similar periods for the prior year, mainly from a contract for a water treatment system for a mine site.
- Revenue from the Military market decreased both in Q2 2023 as well as the six months ended Q2 2023 as a result of the completion of contracts and the longer sales and procurement cycle required for new contracts in this market.
- Gross profit was \$1.5 million and gross margin was 21% for Q2 2023 compared to \$1.8 million and 22% for Q2 2022. Gross profit was \$3.9 million (gross margin of 24%) for the six months ended Q2 2023 compared to \$3.8 million (gross margin of 24%) for the six months ended Q2 2022. The decrease in gross margin is mainly related to project mix in 2023 compared to 2022.
- Operating costs for the quarter were relatively consistent compared to the prior period, decreasing slightly from \$1.5 million to \$1.4 million. Operating costs increased for the first six months of 2023 to \$2.9 million compared to \$2.7 million in the prior year. The increase is mainly due to increases in share compensation costs as a result of the Company's stock option grants in August 2022 and February 2023, and IT costs related to computer leasing costs, licensing requirements and consulting services. In addition, travel, conference costs and marketing costs have increased as these were reduced in Q2 2022 due to the pandemic restrictions.
- Finance costs were \$21,140 for the quarter ended March 31, 2023 compared to \$23,905 reported in Q2 2022.
- Net earnings for Q2 2023 were \$79,925 compared to \$264,444 for Q2 2022. Net earnings for the six months ended Q2 2023 were \$535,736 compared to \$816,644 in the six months ended Q2 2022.

EBITDA and Adjusted EBITDA (see "Financial Terms and Definitions")

	Three Months Ended		Six Months Ended	
	March 31, 2023 \$	March 31, 2022 \$	March 31, 2023 \$	March 31, 2022 \$
Net income	79,925	264,444	535,736	816,644
Finance costs	21,140	23,905	42,599	56,555
Income tax expense	54,908	59,639	353,744	254,329
Depreciation and amortization	161,472	121,414	305,217	254,283
EBITDA and Adjusted EBITDA	317,445	469,402	1,237,296	1,381,811

The Company recorded EBITDA and adjusted EBITDA of \$317,445 for the three months ended March 31, 2023 compared to \$469,402 for the three months ended March 31, 2022. For the six months ended March 31, 2023, the Company recorded EBITDA and adjusted EBITDA of \$1.2 million, compared to \$1.4 million for the six months ended March 31, 2022.

For more details, see "Discussion of Results of Operations".

Quarterly Results

Quarterly financial information for the eight quarters ended March 31, 2023

(in 000's, except as otherwise indicated)

	Q2 2023 March 31, 2023 \$	Q1 2023 Dec 31, 2022 \$	Q4 2022 Sept 30, 2022 \$	Q3 2022 June 30, 2022 \$
Revenue	7,414	10,478	9,935	8,353
Cost of sales	5,870	8,149	8,178	6,395
Gross profit	1,544	2,329	1,757	1,958
Gross margin %	21%	22%	18%	23%
Operating expenses	1,388	1,553	1,602	1,514
Finance costs	21	21	13	29
Earnings before provision for income tax	135	755	142	415
Income tax expense (recovery)	55	299	(47)	98
Net earnings	80	456	189	317
Weighted average common shares outstanding - basic	29,435,695	29,435,695	29,365,996	29,406,464
Earnings per share – basic and diluted	0.00	0.02	0.01	0.01
	Q2 2022 Mar 31, 2022 \$	Q1 2022 Dec 31, 2021 \$	Q4 2021 Sept 30, 2021 \$	Q3 2021 June 30, 2021 \$
Revenue	8,214	7,816	9,699	8,488
Cost of sales	6,412	5,771	7,354	6,295
Gross profit	1,802	2,045	2,345	2,193
Gross margin %	22%	26%	24%	26%
Operating expenses	1,454	1,265	1,286	1,147
Finance costs	24	33	30	40
Earnings before provision for income tax	324	747	1,029	1,005
Income tax expense (recovery)	60	195	(257)	318
Net earnings	264	552	1,286	687
Weighted average common shares outstanding - basic	29,395,695	29,064,173	28,773,174	28,836,574
Earnings per share – basic and diluted	0.01	0.02	0.04	0.02

The Company experiences variability in its results of operations from quarter to quarter due to the nature of the markets and geographies in which it operates. Typically, in the second quarter, the Company experiences slowdowns related to winter weather conditions and holiday schedules. Activity in the fourth quarter generally increases because of projects in the North that run in the summer season. Additionally, the Company has several discrete contracts that occur throughout the year and can significantly impact the results of any one quarter.

Below are some key highlights for fluctuations quarter over quarter. For information on the operating results please see the Discussion of Results of Operations in each MD&A for each respective quarter.

Highlights on quarter over quarter variances include:

1. **Q2 2023 vs Q2 2022** – Revenue in Q2 2022 included COVID-19 compliance-related revenue, as well as a large contract in the military market for repair and overhaul. Revenue in Q3 2023 did not include similar projects.
2. **Q1 2023 vs Q1 2022** – Q1 2023 includes a large project with \$1.4 million in revenue and lower than average margin. The Company continues to focus on expanding its mining portfolio and has recognized approximately \$500,000 in Q1 2023 from new customers in this market sector. Operating expenses have increased with increased activity.
3. **Q4 2022 vs Q4 2021** – Margins in Q4 2022 were lower than margins in Q4 2021 as a result of project mix. Operating expenses have increased with increased activity.
4. **Q3 2022 vs Q3 2021** – Q3 2022 includes higher operating expenses of approximately \$366,000 as a result of the Company resuming selling and marketing activities post-pandemic, as well as an increased focus on information technology and process improvements.

Summary of Cash Flows

	March 31, 2023 \$	Six Months Ended March 31, 2022 \$
Cash provided by (used in)		
Operating activities, excluding changes to working capital	972,183	1,252,940
Changes related to working capital	(1,950,763)	(1,198,252)
Operating activities	(978,580)	54,688
Investing activities	-	(61,361)
Financing activities	(504,017)	(468,805)
Change in cash and cash equivalents	(1,482,597)	(475,478)
Cash and cash equivalents – Beginning of period	4,911,423	4,727,420
Cash and cash equivalents – End of period	3,428,826	4,251,942
Free cash flow ¹	715,278	972,312

Note 1: Free cash flow is a non-IFRS measure and is calculated as cash flow from operating activities excluding changes in working capital balances less net capital expenditures and net payment of lease obligations (see 'Financial Terms and Definitions').

Summary of Cashflow

Cash used from operating activities was \$978,580 in the six months ended March 31, 2023 compared with cash produced from operating activities of \$54,688 in the same period in 2022. The decrease is mainly from a lump sum payment for corporate income taxes, as well as making a number of vendor prepayments to secure the timely supply of materials for projects.

There were no investing activities in the first six months ended of 2023 compared to the cash consumed by investing activities of \$61,361 in the same period for 2022.

For the six months ended March 31, 2023, cash used in financing activities was \$504,017, compared to cash used by financing activities of \$468,805 in the same period of 2022.

Liquidity

The Company's short-term credit facilities consist of an operating credit line in the amount of \$2.5 million, which is a shared limit between its overdraft facility and letters of credit. The facility carries a floating interest at prime plus 1.25% (2022 - 2.25%), is collateralized by a first ranking general security agreement over all the Company's present and future assets and has no contractual maturity.

For the period ended March 31, 2023, the effective interest rate under this facility was 7.53% (2022 – 3.95%). As at March 31, 2023, the Company had drawn \$nil on its operating facility and \$nil in letters of credit.

On April 20, 2021, the Company entered into a letter of agreement with its bank for a new \$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. It matures April 30, 2025, will be carried at amortized cost and is subject to the same covenants as the Company's short term credit facilities.

As at March 31, 2023, the Company had approximately \$6.1 million in availability between its operating line and cash balances and was in compliance with all its covenants.

Business Outlook

The following comments include forward-looking information and users are cautioned that actual results may vary.

BluMetric is focused on making key investments in its Cleantech water treatment products and in its personnel to support growth and market expansion. The Company is planning to invest in leadership in the Commercial and Industrial market and staff expansion of our fabrication facility, to take advantage of emerging opportunities. Furthermore, BluMetric will continue to build on a strong 2022 servicing clients in Canada's North, as well as its other government clients. In addition, the Company is considering acquisition opportunities to accelerate growth.

BluMetric believes that the following factors have and will continue to position BluMetric for growth:

- The Company's diversified service offerings and market sectors;
- Realizing the robust interest in our newly developed agile water treatment systems for Cleantech;
- Capitalize on our newly expanded Cleantech fabrication facility;
- Expanded presence in Quebec, with a market focus on Mining;
- Geographic expansion of our Cleantech products;
- Strong balance sheet, as seen from the Company's increasing net cash position;
- Business processes implemented since the beginning of the pandemic which allow the Company to agilely manage its discretionary and non-discretionary costs in response to changing conditions; and
- Increased liquidity, if needed, from a higher borrowing limit on its operating credit line as a result of renegotiating its credit facility agreement and moving from a limit of \$2.0 million for overdraft and \$500,000 for letters of credit to a \$2.5 million shared limit between overdraft and letters of credit.

Business Risks

The Company is subject to risks and uncertainties in the normal course of business that could materially affect the financial condition of the Company. These risks and uncertainties include, but may not be limited to, the following:

- Ability to attract and retain key personnel;
- Macroeconomic risk of recession in key markets or the economy as a whole;
- Reliance on key clients;
- Liquidity risk with respect to clients, and their ability to pay and pay on time;
- Competition from companies which are better-financed or have disruptive technologies;
- Potential claims and litigations; and
- Cybersecurity threats.

Capital Resources

The Company's future growth strategy contemplates investment in various technologies and processes requiring capital for prototyping purposes. Accordingly, the Company may opportunistically approach capital markets for additional equity funding if conditions are favourable.

Critical Accounting Estimates and Judgements

The reader is referred to the detailed discussion on critical accounting estimates and judgements found in Note 2 of the Company's audited financial statements and related notes for the year ended September 30, 2022.

Off-Balance Sheet Arrangements

For contractual commitments not recognized on the Statement of Financial Position, the reader is referred to Note 17 of the Company's audited financial statements for the year ended September 30, 2022.

Transactions with Related Parties

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

Key management personnel of the Company are members of the Board of Directors, the Chief Executive Officer, the Chief Financial Officer, and members of the executive team.

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

	Three Months Ended		Six Months Ended	
	March 31, 2023 \$	March 31, 2022 \$	March 31, 2023 \$	March 31, 2022 \$
Salaries	456,950	469,619	714,631	708,869
Short-term benefits	20,243	24,720	49,635	48,641
Share-based compensation	48,389	4,581	94,622	9,280
	525,582	498,920	858,888	766,790

Proposed Transactions and Subsequent Events

There are no proposed transactions or subsequent events for the quarter ended March 31, 2023.

Summary of Outstanding Shares and Dilutive Instruments

The Company currently has the following shares and dilutive instruments outstanding:

Shares:	29,435,695 common shares
Options:	2,781,000 options

Inter-Corporate Relationships

There are no inter-corporate relationships for the quarter ended March 31, 2023.

Financial Terms and Definitions

Definition of Non-GAAP Measures

This Management Discussion and Analysis includes reference to and uses terms that are not specifically defined in IFRS and do not have any standardized meaning prescribed by IFRS. These non-GAAP measures may not be comparable to similar measures presented by other companies. The Company believes that the measures defined here are useful for providing investors with additional information to assist them in understanding components of the financial results.

EBITDA. EBITDA represents net income before interest expense, income taxes, depreciation of property and equipment, and amortization of intangible assets. The Company uses this measure as part of assessing operating performance. There is no direct comparable IFRS measure for EBITDA.

Adjusted EBITDA. Adjusted EBITDA additionally excludes items that are significant and irregular, such as the gain on disposal of assets held for sale impairment charges.

Management believes that Adjusted EBITDA as defined above is an important indicator of the Company's ability to generate liquidity through operating cash flow to fund future working capital needs, service outstanding debt and fund future capital expenditures and uses the metric for this purpose. Adjusted EBITDA is also used by investors and analysts for valuation purposes. The intent of the Adjusted EBITDA is to provide additional useful information to investors and analysts. The measure does not have any standardized meaning under IFRS. Adjusted EBITDA should therefore not be considered in isolation or used in substitute for measures of performance prepared in accordance with IFRS. Other issuers may calculate Adjusted EBITDA differently.

Free cash flow: Free cash flow is a non-IFRS measure and is calculated as cash flow from operating activities excluding changes in the working capital balances less net capital expenditures and net payment of lease obligations. The Company uses the measure as part of assessing the availability of discretionary cash as part of its liquidity management. There is no direct comparable measure under IFRS.

Net cash: Net cash is a non-IFRS measure and is calculated as cash less total debt excluding lease liabilities. The Company uses this measure as part of assessing liquidity. There is no direct comparable measure under IFRS.

Management's Responsibility for Financial Reporting

The unaudited financial statements of BluMetric Environmental Inc. and all the information in this Management Discussion and Analysis have been prepared by management, which is solely responsible for the integrity and fairness of the data presented, including the many amounts, which due to necessity, are based on estimates and judgments. The accounting policies followed in the preparation of these annual financial statements conform to IFRS Financial Reporting Standards. When alternative accounting methods exist, management has chosen those that it deems most appropriate in the circumstances. Financial information presented throughout this report is consistent with that in the financial statements.

BluMetric maintains systems of internal accounting and administrative controls to provide reasonable assurance that the financial information is relevant, reliable, and accurate and that transactions are authorized, assets are safeguarded, and proper records are maintained.

The Board of Directors is responsible, principally through its Audit Committee, for ensuring that management fulfills its financial reporting responsibility.

Additional Information

Additional information on the Company can be found at www.blumetric.ca and at www.sedar.com.