

**BLUMETRIC ENVIRONMENTAL INC.**

**MANAGEMENT'S DISCUSSION & ANALYSIS**

**FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2023**

(expressed in Canadian dollars)

August 24, 2023



## *About Us*

BluMetric Environmental Inc. is a publicly traded environmental consulting and engineering company with expertise across professional and trade disciplines and technologies that allow for the design, fabrication and delivery of sustainable solutions to environmental and water challenges. BluMetric has more than 180 employees operating in ten offices and over 40 years of expertise. Headquartered in Ottawa, Ontario, BluMetric's team of industry experts serves Commercial and Industrial, Military, Mining and Government clients.

## **August 24, 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 nine months ended June 30, 2023. The MD&A should be read in conjunction with the Company's financial statements and related notes for the period ended June 30, 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 180 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. 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 and is developing a mid-sized Portable Water Treatment System and 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 can 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 and is set to be tested in the DND IDEaS competition in August 2023 at CFB Suffield in Alberta. Both systems are expected to be ready for deployment in April 2024.

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 Karaiskos, 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 180 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		Nine Months Ended	
	June 30, 2023 \$	June 30, 2022 \$	June 30, 2023 \$	June 30, 2022 \$
Revenue	6,941,257	8,353,226	24,833,267	24,383,252
Gross profit	1,032,805	1,958,341	4,906,283	5,805,023
Gross margin %	15%	23%	20%	24%
Operating expenses	1,894,091	1,513,657	4,835,490	4,232,811
Finance costs	13,714	28,764	56,313	85,319
Earnings (loss) before provision for income tax	(875,000)	415,920	14,480	1,486,893
Income tax expense (recovery)	(145,635)	98,058	208,109	352,387
Net earnings (loss)	(729,365)	317,862	(193,629)	1,134,506
EBITDA <sup>1</sup>	(674,509)	572,652	562,785	1,954,463
Weighted average common shares outstanding – basic	29,435,695	29,406,464	29,435,695	29,342,508
Weighted average common shares outstanding – diluted	29,442,989	29,425,907	29,436,705	29,414,674
Earnings per share – basic and diluted	(0.02)	0.01	(0.01)	0.04
Total assets			18,236,611	17,720,875
Working capital			10,359,859	10,814,175
Non-current liabilities			1,929,315	1,488,106
Shareholders' equity			11,438,431	11,140,338
Net cash <sup>2</sup>			3,919,801	4,516,697

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		Nine Months Ended	
	June 30, 2023 \$	June 30, 2022 \$	June 30, 2023 \$	June 30, 2022 \$
Commercial and industrial	3,054,259	3,748,421	10,519,548	9,556,010
Government	1,693,040	2,087,622	5,717,718	6,381,052
Military	1,151,829	1,544,790	4,216,537	5,341,031
Mining	1,042,129	972,393	4,379,464	3,105,159
	6,941,257	8,353,226	24,833,267	24,383,252

## Discussion of Results of Operations

- Revenue for the three and nine months ended June 30, 2023, was \$6.9 million and \$24.8 million respectively, compared to \$8.4 million and \$24.4 million for the three and nine months ended June 30, 2022.
- Revenue from the Military market decreased both in Q3 2023 as well as the nine months ended Q3 2023 because of the completion of contracts and the longer sales and procurement cycle required for new contracts in this market. During the quarter, BluMetric signed a 3 year \$11.7 million contract with Rheinmetall Canada to develop and deliver small, self-contained water purification systems as part of a contract awarded by the Canadian Armed Forces, with final delivery expected by 2025.
- Revenue from the Mining market increased both for the quarter and 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.
- Gross profit was \$1.0 million and gross margin was 15% for Q3 2023 compared to \$2.0 million and 23% for Q3 2022. Gross profit was \$4.9 million (gross margin of 20%) for the nine months ended Q3 2023 compared to \$5.8 million (gross margin of 24%) for the nine months ended Q3 2022. Gross margin was impacted by execution issues that were encountered on the delivery of a waste water treatment system, as well as the overall project mix in 2023 compared to 2022.
- Operating costs increased for the three and nine months ended June 30, 2023, compared to the same periods in the prior period. The increase is mainly due to increases in share compensation costs as a result of the Company's stock option grants (a large block of grant was issued to employees in August 2022) as well as an increase in marketing, consulting and legal costs. The Company also held an employee conference in April to connect the company and discuss future growth. In addition, travel, conference, and marketing costs have increased as operations return to its normal levels.
- Finance costs were \$13,714 for the quarter ended June 30, 2023, compared to \$28,764 reported in Q3 2022.
- Net losses for Q3 2023 were \$729,365 compared to net earnings of \$317,862 for Q3 2022. Net losses for the nine months ended June 30, 2023, were \$193,629 compared to \$1.1 million in earnings for the same period in the prior year.



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

	Three Months Ended		Nine Months Ended	
	June 30, 2023 \$	June 30, 2022 \$	June 30, 2023 \$	June 30, 2022 \$
Net income (loss)	(729,365)	317,862	(193,629)	1,134,506
Finance costs	13,714	28,764	56,313	85,319
Income tax expense	(145,635)	98,058	208,109	352,387
Depreciation and amortization	186,777	127,968	491,992	382,251
<b>EBITDA and adjusted EBITDA</b>	<b>(674,509)</b>	<b>572,652</b>	<b>562,785</b>	<b>1,954,463</b>

The Company had negative EBITDA of \$674,509 for the three months ended June 30, 2023, compared to EBITDA of \$572,652 for the three months ended June 30, 2022. For the nine months ended June 30, 2023, the Company recorded EBITDA of \$562,785, compared to \$2.0 million for the nine months ended June 30, 2022.

The decrease in EBITDA is mainly due to decreased project revenue in Q3 2023 (\$1.4 million decrease in revenue in Q3 2023 compared to Q3 2022) and lower gross margin (gross margin was 15% in Q3 2023 compared to 23% in Q3 2022; and 20% year-to-date Q3 2023 compared to 24% year-to-date Q3 2022). Additionally, operating expenses increased by approximately \$380,000 in Q3 2023 compared to Q3 2022 and increased approximately \$603,000 year-to-date.

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

## Quarterly Results

Quarterly financial information for the eight quarters ended June 30, 2023

(in 000's, except as otherwise indicated)

	<b>Q3 2023</b> <b>June 30,</b> <b>2023</b> \$	<b>Q2 2023</b> <b>March 31,</b> <b>2023</b> \$	<b>Q1 2023</b> <b>Dec 31,</b> <b>2022</b> \$	<b>Q4 2022</b> <b>Sept 30,</b> <b>2022</b> \$
Revenue	6,941	7,414	10,478	9,935
Cost of sales	5,908	5,870	8,149	8,178
Gross profit	1,033	1,544	2,329	1,757
Gross margin%	15%	21%	22%	18%
Operating expenses	1,894	1,388	1,553	1,602
Finance costs	14	21	21	13
Earnings before provision for income tax	(875)	135	755	142
Income tax expense (recovery)	(146)	55	299	(47)
Net earnings	(729)	80	456	189
Weighted average common shares outstanding - basic	29,435,695	29,435,695	29,435,695	29,365,996
Earnings per share – basic and diluted	(0.02)	0.00	0.02	0.01
	<b>Q3 2022</b> <b>June 30,</b> <b>2022</b> \$	<b>Q2 2022</b> <b>Mar 31,</b> <b>2022</b> \$	<b>Q1 2022</b> <b>Dec 31,</b> <b>2021</b> \$	<b>Q4 2021</b> <b>Sept 30,</b> <b>2021</b> \$
Revenue	8,353	8,214	7,816	9,699
Cost of sales	6,395	6,412	5,771	7,354
Gross profit	1,958	1,802	2,045	2,345
Gross margin%	23%	22%	26%	24%
Operating expenses	1,514	1,454	1,265	1,286
Finance costs	29	24	33	30
Earnings before provision for income tax	415	324	747	1,029
Income tax expense	98	60	195	(257)
Net earnings	317	264	552	1,286
Weighted average common shares outstanding - basic	29,406,464	29,395,695	29,064,173	28,773,174
Earnings per share – basic and diluted	0.01	0.01	0.02	0.04

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. **Q3 2023 vs Q3 2022:** Revenue decline is mainly a result of delayed starts for a number of projects related to the Company's Northern work. Q3 2023 includes higher operating expenses of approximately \$380,000 as a result of the Company hosting a conference, focusing on marketing activities to drives sales, and increased share compensation costs.
2. **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.
3. **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.
4. **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.

## Summary of Cash Flows

	Nine Months Ended	
	June 30, 2023	June 30, 2022
	\$	\$
<b>Cash provided by (used in)</b>		
Operating activities, excluding changes to working capital	427,891	1,782,786
Changes related to working capital	595,244	216,984
Operating activities	1,023,135	1,999,770
Investing activities	(268,077)	(74,786)
Financing activities	(797,463)	(692,227)
Change in cash and cash equivalents	(42,405)	1,232,757
Cash and cash equivalents – Beginning of period	4,911,423	4,727,420
Cash and cash equivalents – End of period	4,869,018	5,960,177

## Summary of Cashflow

Cash produced from operating activities was \$427,891 in the nine months ended June 30, 2023, compared with cash produced from operating activities of \$1.8 million in the same period in 2022. The decrease was a result of lower revenue and gross profit.

Investing activities consumed \$268,077 of cash in the first nine months of 2023 compared to cash consumed by investing activities of \$74,786 in the same period for 2022. The increase is related to equipment that will be used in future water treatment related projects.

For the nine months ended June 30, 2023, cash used in financing activities was \$797,463 compared to cash used in financing activities of \$692,227 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 June 30, 2023, the effective interest rate under this facility was 7.78% (2022 – 4.95%). As at June 30, 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 June 30, 2023, the Company had approximately \$7.6 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 2023 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		Nine Months Ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 31, 2022
	\$	\$	\$	\$
Salaries	278,872	258,455	993,504	967,324
Short-term benefits	16,667	26,810	66,303	75,451
Share-based compensation	47,385	8,462	142,007	17,742
	342,924	293,727	1,201,814	1,060,517

### Proposed Transactions and Subsequent Events

There are no proposed transactions or subsequent events for the quarter ended June 30, 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:	2,701,000 options

### Inter-Corporate Relationships

There are no inter-corporate relationships for the quarter ended June 30, 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 funded 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](http://www.blumetric.ca) and at [www.sedar.com](http://www.sedar.com).