

BluMetric Environmental Inc.

Fiscal Year 2023 Q2 Conference Call

Event Date/Time: May 26, 2023 — 10:00 a.m. E.T.

Length: 10 minutes

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CORPORATE PARTICIPANTS

Vivian Karaiskos

BluMetric Environmental Inc. — Chief Financial Officer

Scott MacFabe

BluMetric Environmental Inc. — Chief Executive Officer

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the BluMetric Environmental Inc. Fiscal Year 2023 Q2 Conference Call. At this time, all lines are in a listen-only mode.

Following the presentation, we will conduct a question-and-answer session.

If at any time during this call you need assistance, please press *, 0 for the Operator.

This call is being recorded on Friday, May 26, 2023.

I would now like to turn the conference over to Vivian Karaiskos. Please go ahead.

Vivian Karaiskos — Chief Financial Officer, BluMetric Environmental Inc.

Thank you, Operator. Good morning and welcome, everyone, to BluMetric Environmental's quarterly earnings conference call. This call will cover BluMetric's financial and operating results for the fiscal second quarter ended March 31, 2023.

Following our prepared remarks, we will open the conference call to a question-and-answer session.

Our call today will be led by Scott MacFabe, BluMetric's Chief Executive Officer, along with myself, Vivian Karaiskos, the Company's Chief Financial Officer.

Before we begin with our formal remarks, I would like to remind everyone that some of the statements on this conference call may be forward-looking statements. Forward-looking statements may include, but are not necessarily limited to, financial projections or other statements of the Company's plans, objectives, expectations, or intentions. These matters involve certain risks and uncertainties. The Company's actual results may differ significantly from those projected or suggested in any forward-looking statements, due to a variety of factors which are discussed in detail in our regulatory filings.

There may also be references to certain non-IFRS measures, such as EBITDA, backlog, working capital, free cash flow, and net cash. These non-IFRS measures are not recognized measures under International Financial Reporting Standards and do not have a standardized meaning prescribed by IFRS and are, therefore, unlikely to be comparable to similar measures presented by other companies. Please see our disclosures for further information and reconciliations of these non-IFRS measures.

I will now hand the call over to Scott MacFabe. Please go ahead, Scott.

Scott MacFabe — Chief Executive Officer, BluMetric Environmental Inc.

Good morning, everyone, and welcome to our second quarter 2023 earnings call for BluMetric Environmental. We appreciate you taking the time to join us today on our call.

First, I always like to start off by acknowledging the continued hard work our talented and diverse team puts in. They're the ones that allow us to successfully deliver solutions to our clients' most complicated environmental and business challenges. At the same time, we really appreciate the continued support from you, our shareholders, and would like to thank you for your continued support and confidence in BluMetric Environmental.

After my overview of the second quarter, our CFO, Vivian Karaiskos, will go over our financial results in more detail.

We continued into the year showcasing the stability of our business, while we continued making meaningful progress and investments into our growth strategy. This was shown with revenues remaining relatively consistent with comparable quarters.

In addition, we made it a priority to continue to hire essential personnel throughout the quarter to support our project execution and sales force.

Most notably, I'm excited to announce a three-year, \$11.7 million contract that we have just signed with Rheinmetall. We've been talking about our water cleantech strategy for quite some time now, and this contract showcases this strategy.

The scope of the contract is to develop and deliver small, portable water purification systems as part of a contract awarded by the Canadian Armed Forces. These units, named, the Advanced Sub-Unit Water Purification System, or ASUWPS, will significantly enhance the Canadian Armed Forces' mission support capabilities by enabling water purification at the sub-unit level.

In preparation for this contract and future prospects, we've made investments in expanding our production facility and developing a prototype.

Overall, we're seeing the benefits from the diversity of our solutions in markets.

Revenues in the commercial and government markets remained relatively consistent, compared with revenues from the same quarter last year.

Revenue from the mining market witnessed an approximately 50 percent increase for both the quarter and year to date, when compared to similar periods in the year prior. This growth is primarily driven by a contract for a water treatment system at a mine site.

On the other hand, revenue from the military market decreased, due to completion of contracts and a longer sales and procurement cycle required for new contracts in this market.

Second quarter 2023 revenue came in at \$7.4 million, a slight decrease of 10 percent compared to Q2 2022. The smaller top line reflects the project mix, which included smaller contracts this quarter.

EBITDA decreased to \$317,000, and which decreased about 32 percent from Q2 2022.

At this point, we see the current gross margin level stabilizing and are working to increase then as we get more operating leverage from the investments in the growth that we're completing.

As I mentioned last update, operating costs were expected to increase due to increased activity, strategic investments in sales, marketing, and technology.

Our balance sheet remains healthy and strong, as demonstrated by our net cash position, and we remain confident that our capital stewardship priorities will deliver sustainable growth, resulting in shareholder value over the long term.

Gross profit was \$1.5 million, but the gross margin was in line at 21 percent in the first quarter, compared to \$1.8 million and 22 percent for Q2 2022.

Gross margin was down slightly this quarter due to project mix.

As we enter the fieldwork season, BluMetric will continue to build upon its success servicing clients in Canada's North during fiscal year 2022. Additionally, we will leverage our Inuit-owned joint venture to support projects based in Nunavut.

Lastly, I'd like to welcome the newest members of our team, which include strategic hires in business development roles for our commercial, industrial, and military markets. These positions are key for driving growth in these markets.

Ultimately, BluMetric takes a highly disciplined approach to identifying opportunities that we believe will accelerate growth over the long term. We continue to prioritize business development efforts in all key markets with a long-term focus on key investments in cleantech water treatment solutions. In particular, we'll be showcasing our mobile water treatment systems in August at CFB Suffield in Alberta.

I'd now like to hand this back over to Vivian for an overview of the financials. Please go ahead, Vivian.

Vivian Karaiskos

Thank you, Scott. I'm pleased to present to you today BluMetric's second quarter results in more detail.

As Scott mentioned, BluMetric had quarterly revenue of \$7.4 million, with gross profit representing \$1.5 million, for gross margin of approximately 21 percent.

The Company's EBITDA was \$317,000 with net earnings of \$80,000 or \$0.00 per share.

Year over year, we experienced a slight decrease in overall revenue, mainly due to project mix.

The Company's results for the six months ended March 31, 2023, were in line with internal expectations.

On March 31, 2023, BluMetric had a cash and cash equivalents balance of \$3.4 million, a decrease of \$700,000 from the previous quarter-end.

The Company remains well financed to achieve its objectives and maintains a clean capital structure with minimal debt.

Cash used in operating activities was approximately \$979,000 in the six months ended March 31, 2023, compared with cash produced from operating activities of \$55,000 for the same period in 2022. The decrease in cash flow is due mainly to increased payments required in large part to secure the timely supply of materials for our projects (phon).

There were no investing activities in the six months ended March 31, 2023, compared to cash consumed by investing activities of \$61,000 in the same period for 2022.

For the six months ended March 31, 2023, cash used in financing activities was \$504,000, compared to cash used in financing activities of \$469,000 in the same period for 2022.

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.

We will report our fiscal Q3 2023 results in August 2023.

I would like to thank you for taking the time to allow us to present our results to you today. We will now take questions from call participants.

Q&A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the *, followed by the 1 on your touch-tone phone. You will hear a three-tone prompt acknowledging your request. If you are using a speakerphone, please lift the handset before pressing any keys. One moment, please, for your first question.

Ladies and gentlemen, as a reminder, should you have any questions, please press *, 1 now.

Operator

As there are no questions on the line, this does conclude your conference call for today. We thank you for participating, and we ask that you please disconnect your lines. Enjoy the rest of your day.