

**BluMetric Environmental Inc.**

**Third Quarter 2023 Earnings Conference Call**

August 29, 2023 — 1:00 p.m. E.T.

Length: 29 minutes

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## **CORPORATE PARTICIPANTS**

**Brandon Chow**

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**Scott MacFabe**

*BluMetric Environmental Inc. — Chief Executive Officer*

**Vivian Karaiskos**

*BluMetric Environmental Inc. — Chief Financial Officer*

## **CONFERENCE CALL PARTICIPANTS**

**John Lewis**

*Private Investor*

**Brent Todd**

*Canaccord Genuity — Analyst*

## PRESENTATION

### Operator

Good morning and good afternoon, ladies and gentlemen, and welcome to the BluMetric Environmental Inc. FY 2023 Q3 Conference Call. At this time, all lines are in listen-only mode. Following the presentation, we will conduct a question-and-answer session. If at any time during this call you require immediate assistance, please press star zero for the operator. This call is being recorded on Tuesday, August 29, 2023.

I would now like to turn the conference over to Brandon Chow. Please go ahead, sir.

**Brandon Chow** — Investor Relations, BluMetric Environmental Inc.

Thank you, operator. Welcome, everyone, to BluMetric Environmental's quarterly earnings conference call. This call will cover BluMetric's financial and operating results for the fiscal third quarter ended June 30, 2023. Following our prepared remarks, we will open the conference call to a Q&A session. Our call today will be led by Scott MacFabe, BluMetric's CEO, and Vivian Karaiskos, the Company's CFO.

Before we begin 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, which include EBITDA, backlog, working capital, free cash flow, and net cash. These non-IFRS measures are not recognized measures under IFRS 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.

Thank you, Brandon. I'd like to welcome everybody to our third quarter 2023 earnings call for BluMetric Environmental. We appreciate all of you taking the time to join us on today's conference call.

To begin, I want to express my recognition of the profound devastation that the numerous communities in Canada's northern region have been enduring and continue to face due to the recent extensive wildfires. The magnitude of this challenge has been immense for those directly impacted and we extend our heartfelt wishes for the safety and wellbeing of individuals and families. We are hopeful that they receive the necessary support to aid in their recovery once this trying period comes to an end.

I'll start off by providing an overview of the third quarter and then our CFO, Vivian Karaiskos, will go over our financial results in more detail. As a reminder, BluMetric is a full service environmental consulting and engineering clean tech firm. We focus on consultancy services and provide agile water

systems. We have a long 45-year history as a company and today we're comprised of an interdisciplinary team of over 180 environmental experts and water tech leaders. We aspire to be the environmental solutions and water clean tech company of choice.

Now let's discuss the quarter. This quarter was a challenging one for BluMetric. Revenue growth came in lower than expected as we have been experiencing a more challenging operational backdrop in the second half of the fiscal year. We faced obstacles in revenue generation due to project schedule delays, particularly with respect to some of our northern projects. These challenges may continue into next quarter, mainly due to the recent widespread forest fires, but we continue to monitor the situation to mitigate as possible and manage the situation closely.

Gross margin declined through the quarter, which was also impacted by one-time costs arising from a custom wastewater treatment system that was delivered to a mining client. Our goal is to get our gross margin back on to and above 20%, which is our favourable historic number, and affect our bottom line accordingly. Additionally, the Company had higher operational expenses, which were a result of key growth investments in our employees and our corporate culture. While execution challenges on certain projects have impacted our financial performance, we are actively addressing these challenges with the goal of restoring our gross margin that aligns with historic levels. We believe our current staff complement supports the higher revenue generation that we need and don't expect significant increases in our cost base to deliver our targeted growth.

We continue to be pleased with progress in our growth initiatives, which has helped us drive a strong backlog. This achievement can be attributed to our recent strategic business development

activities as well as steady demand for comprehensive environmental solutions in our four key markets, being commercial industrial, government, military, and mining. We continue to explore also broader market opportunities for our agile water and wastewater products.

Revenues in the commercial and industrial, government, and military markets were down from the same quarter last year. Revenue in our mining market witnessed a modest increase this quarter with significant increase of about 41% for nine months when compared to similar periods in the prior year. The growth in mining is primarily driven from the execution of contract for wastewater treatment systems for the mining client, which saw a negative impact to our gross margin. We're closing on steady backlog also in all four markets. Also let's not forget that during the third quarter we signed an \$11.7 million contract for our new agile water treatment systems launched with Rheinmetall Canada. This contract will help to support growth in our military market. The final delivery of the water purification systems is expected into 2025.

Our balance sheet continues to remain healthy and strong, as demonstrated by our net cash position of \$3.9 million, which gives us some breathing room to focus on getting things back where they need to be and deliver sustainable growth over the long term.

While this quarter presented numerous challenges and did not go as planned, BluMetric aims to take a highly disciplined approach to identifying opportunities that we believe positively contribute to higher-quality growth. We continue to prioritize business development efforts in all four key markets with an emphasis on seeing our clean tech water treatment solutions succeed as a key driver of top-line revenue growth.

I'd now like to hand this over to Vivian for a more detailed overview of the quarterly financials.

Please go ahead, Vivian.

**Vivian Karaiskos** — Chief Financial Officer, BluMetric Environmental Inc.

Thank you, Scott. Today I will be presenting to you BluMetric's fiscal third quarter results in more detail.

BluMetric had quarterly revenue of \$6.9 million with a gross profit of \$1 million and a gross margin representing approximately 15%. The Company's EBITDA was negative \$675,000 with a net loss of \$729,000 or negative \$0.02 per share. As Scott mentioned, year over year we experienced a decrease in overall revenue, mainly due to delayed starts for a number of projects related to the Company's northern work. Gross margin declined and was impacted by one-time costs arising from a custom wastewater treatment system to a mining client. This quarter also included higher operating expenses of approximately \$380,000, in part because of increased marketing activities to drive sales, increased share compensation cost, and an internal leadership conference.

The Company's results for the nine months ended June 30, 2023 came in lower than internal expectations with respect to revenue growth and profitability. On June 30, 2023, BluMetric had a cash and cash equivalents balance of \$3.9 million, an increase of approximately \$500,000 from the previous quarter end and a decrease of approximately \$600,000 for the same quarter last year. We believe the Company remains well financed to achieve its objectives and maintains a clean capital structure with minimal debt.

Cash produced from operating activities was approximately \$1 million in the nine months ended June 30, 2023 compared with cash produced from operating activities of \$2 million for the same period in 2022. The decrease in cash flow generation is due mainly to lower revenue and gross profit.

Cash consumed in investing activities of \$268,000 for the quarter and for the nine months ended June 30, 2023 related to investments in equipment. This is compared to cash consumed by investing activities of \$75,000 in the same period for 2022.

For the nine months ended June 30, 2023, cash used in financing activities was \$797,000 compared to cash used in financing activities of \$692,000 in the same period for 2022. 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.

That concludes my update on the financials. I'd like to thank everyone for taking the time to allow us to present our results to you today. We will now take questions from call participants and will pass it back off to the operator.

## 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 star followed by the one on your touchtone phone. You will hear a three-tone prompt acknowledging your request. Questions will be taken in the order received. Should you wish to cancel your request, please press the star followed by the two. If you are using a



speakerphone, please lift the handset before pressing any keys. Once again, that is star one should you wish to ask a question.

Your first question is from John Lewis, a private investor. Please ask your question.

**John Lewis** — Private Investor

Hi. Good afternoon, Scott. Good afternoon, Vivian.

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

Hi, John.

**John Lewis** — Private Investor

You've laid out the numbers pretty succinctly. I've got a couple questions. Can you give me a sense of what the staff count was at the end of this quarter compared to the beginning of the quarter?

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

It's approximately 180 at the end. Just checking. I'd say about 170, I'd say an add of about 10, John.

**John Lewis** — Private Investor

Okay. All right. Did you also add a new office? There seems to be a new office on the balance sheet or a new location or something. Or...?

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

Oh, I see. Yeah, no, it's actually we renewed leases for offices. We haven't opened new locations. But we had new renewals on a couple of offices, Toronto being one, was the main one, and then a small one in Gatineau.

**John Lewis** — Private Investor

Okay. So I guess, you know, and I don't know what your metrics are for your employee base. If I see 180 employees, 10 offices, what kind of revenue generation could you expect? Just trying to figure out are you fully staffed now or is there more people to go? Clearly you were ramping up.

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

It's a good question, but it's a complicated question, John, in that we have staff that we are hiring, have hired or traded out, traded up in our clean tech side of the business as we work to staff that up and front-end load in preparation for growth but also for taking care of orders in hand that are ramping up. We come back to the ASUWPS contract for a potable water system we're putting together with Rheinmetall Canada. The front-end loading is getting what they would call a prototype. We have a functioning operating system, but we get through the prototype phase, and when they review and approve that it's acceptable to the federal client, we get into full production in the spring of next year, and then that production happens in tranches into 2025.

For the consultancy, what we do is we look to drive an efficient deployment of those individuals, because they do bill by the hour, and in some cases where markets are doing better we will hire, in

others we may have to contract, but the goal is to always keep them heavily deployed. One of the challenges we had was, for instance in our government market, the government sells and their procurement departments are understaffed and they were very slow to actually release the contracts that needed to get deployed almost by two months. All that's been deployed and now we're stacking up to try and get all of that done before season closes. And so there is a real lag in getting that work immediately up and running, but we're there now. So, depending on the market, and I'm not trying to be elusive here, but depending on the market, depending on this part of the business, we've had some ins and outs in improvements, but overall we're trying to keep our labour cost pretty much flat if we can.

**John Lewis** — Private Investor

So you did mention the—is it Rhinetell(ph)?

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

Rheinmetall Canada.

**John Lewis** — Private Investor

Rheinmetall. There we go. You mentioned the \$11 million contract. Do you expect to see any of those dollars in 2024 or is that all 2025?

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

Oh, no, we'll see it in 2024. We're already starting now as we get our first, call it, prototype done, delivered, they review, approve it, and when that box is checked, that's expected by schedule to be

spring next year in 2024. At that point we start to build and execute and deliver tranches of units to them. I think they are five at a time.

**John Lewis** — Private Investor

Okay.

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

And also, there is an option for them in the contract should they, we hope they execute it, to add more units, but for now the release is for 21, 1 plus, or sorry, 26. So there is an option for adding more and we're hoping that we can convince them to do that.

**John Lewis** — Private Investor

Where in the world are these units going?

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

Well, these are all for the Canadian DND, for their use and disposal however they choose. But they can go anywhere. That's the goal. These are supposed to be agile mobile systems, which is a big push by us.

**John Lewis** — Private Investor

Right. The DND IDEaS competition that was running in August, is that continuing on? Is that still active?

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

Yeah. Yeah, I'm glad you asked. Actually, we just finished the competition this Saturday and very proud of the team. We showed very well. We don't know where we are. We definitely made it to the finals. But we hope to hear in about two or three weeks.

**John Lewis** — Private Investor

Okay.

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

[Inaudible], [inaudible] for the DND, just so we're clear, that's for clean water. For the IDEaS program, that's a mobile wastewater system. So it's a very different opportunity for us, but a good one, because the opportunity to deploy that in many other locations as well is extremely broad. So we're happy to get that exposure and I'm hoping I can report some good news in a couple of weeks.

**John Lewis** — Private Investor

In the notes I did notice mention to order, strong order backlog a couple of times. Is there any kind of colour you can give on that or how should we look at that?

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

I would say that usually we comment by a market-by-market basis to say which markets macro-economically are operating, and they all right now seem to be operating and funding through sales

pretty consistently. We're not seeing any huge drops or rises in any. We definitely see much better backlog in our clean tech business, which was always the plan. We've invested in better sales, we've been out there beating the bushes and turning in new work and that is starting to build. And again, the goal is for us to produce almost equal revenue between clean tech and the consultancy. If you look at the backlog right now, the complexion is starting to even out, which is good. I mean if there is a leading indicator between sales and revenue, the sales are looking positive, especially for clean tech.

**John Lewis** — Private Investor

Okay. There was a mention of your margin being impacted by a wastewater treatment system for a mining client during the quarter.

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

I can explain that [inaudible]. It comes down to reputation, John. Every once in a while one of our engineers actually makes an error or an omission, and if it's something that's a change of condition or something we can work out with the client, then we usually work out a change order. But frankly, this situation was an error or omission on our part in terms of making the system bulletproof and safe the way it needs to be operating up on site in the Labrador Trough. And so, as a result, we had to take the costs associated with making some adjustments to the final build on this unit that then goes up in five steel containers shipped out to the site and assembled. And so the reality there is this is our acceptance of our responsibilities and not trying to shirk our responsibilities and making sure that we invest in the product the client deserves and many more, hopefully, that they'll and others will be looking to buy from us. So we took that one on the chin and we are looking very closely at it going forward. But this

was a specialty system. This was not our daily. Sometimes we have great clients that want us to do something that others may not want to touch because it is specialty, but we love to solve those problems when given the opportunity and it just so happens in this case this was something we have to take and fix.

**John Lewis** — Private Investor

Okay. Yeah, I just, you know, I saw that, and I don't know if you follow Aecon's woes, but they got caught with a lot of legacy business and such that they couldn't adjust what they needed and they got just hammered, right?

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

Yeah. No, this one's very simple. It really just comes down to we did a final look at everything, it was all per the design, all per the contract, and then we looked at it in terms of when it's operating and the conditions it's about to operate in, if we didn't make some adjustments to some of the electrical components we wouldn't be satisfied that it would be 100% the way we wanted it to be. So we buckled down and we got it right and we got it shipped out before, ah, and we should be able to deploy it as we speak. So it's a reputation thing, right?

**John Lewis** — Private Investor

Oh, yeah. No, I get that, 100%. Last question. I guess we're almost through the year. We're a couple of months into Q4. As far as expectations go, something similar to what we're looking at or do you have any hopes for a stronger quarter?

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

Well, John, let me put it this way, since I've been at BluMetric I've been responsible for and presided over 23 quarters we reported on and only two have been like this. I don't aim to do it again. The goal here is to tighten down and responsibly and appropriately get us back where we need to go as quickly as possible, always stay in the black, produce the profit we deserve, and manage our business tightly. It was a tough quarter. I mean I could say it lots of ways, but the reality was we were a little surprised from a few things that came out of nowhere. We had an impact on our cost side with a claim that came for a SR&ED(ph) claim contract that actually dated all the way back pre the RTO with Seprotech. Of course, it didn't mean anything to have a SR&ED claim when they weren't making any money, but we start making money, we're using SR&ED claim or the SR&ED credits as we're supposed to. They filed us a letter that we thought was fraud and actually confirmed that it was not in fact fraud; it was an agreement that was inked with Seprotech that they, on a contingent basis, would see 33% of the back pay for any time we use a SR&ED credit going forward. And so we had to take a hit on our cost side for covering that. We don't want to hang over our heads. And so, just when we thought we had dealt with all of the issues or any potential hangover from the RTO, one last snake grows its head and we're doing the right thing and we're taking a hit to cover that off.

**John Lewis** — Private Investor

Okay. Very good. Well, I appreciate the update. I'm obviously cheerleader for the company and I think you've got a lot of people interested. I know you've got a good shareholder base. So this is sort of a



watch quarter now and everybody will be looking to the next and looking for, I guess, positive PR or something along those lines.

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

Absolutely, John. And believe me, from the team here at BluMetric and everybody working hard to produce better results, we all recognize the value of good partners like yourself and shareholders that are patient with us as we work through some of these things. But the best I can say is we're not running and spending irresponsibly. We are managing our issues as they come to us directly, transparently, and we're driving to see the kind of growth that we deserve and the profits we know we can generate when everything is hitting on all cylinders. So that's definitely the goal.

**John Lewis** — Private Investor

Great. Thanks. That's it for me, operator.

**Operator**

Once again, ladies and gentlemen, please press star one should you wish to ask a question.

Your next question is from Brent Todd from Canaccord. Please ask your question.

**Brent Todd** — Analyst, Canaccord Genuity

Hey, Scott, I was just wondering, with the SR&ED claim and this, call it, the wastewater thing with the mining company, the unit that obviously you did the honourable thing, what would those two kind

of add up to and what would the operational...? I'm just trying to figure out what the operational loss would have been barring these, hopefully, one-off events.

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

The difference between margin, gross margin, would be 15% to, say, 18% just for those two units for the quarter, at least 3%.

**Brent Todd** — Analyst, Canaccord Genuity

Okay. Can you sort of quantify that in like hundreds? \$100,000? \$200,000? You know, ballpark.

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

Oh, okay. Well, I do know, Vivian's just going to do a quick check on it, but I know for the SR&ED claims, that was at least a couple of hundred thousand. And for the redo on the unit, the wastewater unit, was about \$140,000 or \$150,000. So, combined, it was about almost 350,000 we had to take in the quarter.

**Brent Todd** — Analyst, Canaccord Genuity

Right. Okay. Okay. And, like I say, hopefully, those are kind of one-off type events. So operationally it still would have been like a kind of a \$400,000 loss quarter or is there any other non-cash stuff in there?

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

Not really, no.

**Brent Todd** — Analyst, Canaccord Genuity

No. Okay. Okay. And so would that just be a function of delayed projects and [inaudible]?

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

A lot of it is. It's frustrating. Like just yesterday we had an off-site with all of our leadership and our operations leadership and drilled through everything to make sure that we're doing everything we can to hit the gas and pick up where things were delayed or slowed down. But you could see, for instance, the deep frustration by our leadership, who are very good at what they do, working with the clients and the federal government to get our contracts on board and going.

But also I will add that I'm very proud of the agility they're showing right now, even in the face of today, dealing with the fires. We have a lot of work that needs to get done up north, we have an office in Yellowknife that's been closed, but the clients still want things done, so we are chartering claims and finding safe ways around the smoke to get to northern places to still get things done even though things, in many ways, have been locked down. But the adage that we always live by, our first and foremost tenet, is we don't do anything if we can't do it safely. But the team is working with the clients and coming up with logistical solutions so we can still advance the work just in slightly more complicated ways. But we're still getting it done and we're getting change orders to get that paid for.

**Brent Todd** — Analyst, Canaccord Genuity

Yeah, that was going to be my next question. Hopefully they're picking up the charter costs and the workaround expenses.

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

Yeah. They are. We also have some curiosities too that we're fielding, which is kind of an interesting thing. We always knew that our agile, our mobile water treatment, potable water treatment systems can manage this, but there is currently a very well-known phenomenon where a lot of the northern lakes are contaminated with ash from the fires and, as a result, we know that our technology that's in the hands of the DND can definitely handle that. So we hope at some point in time we see the benefit of that opportunity turn into reality. But the reality is those systems with the DND for our land-based systems can definitely be put in place and provide clean water until that issue has been dealt with, so we're looking at that as well. For every challenge there is an opportunity.

**Brent Todd** — Analyst, Canaccord Genuity

Right. Okay. Well, hopefully this is kind of the kitchen sink quarter and doesn't become the recurring quarter.

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

I completely agree. It's definitely not our ambition to repeat what the third quarter of this year turned out as.

**Brent Todd** — Analyst, Canaccord Genuity

Okay. I have no further questions.

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

Thank you very much, Brent.

**Operator**

Thank you. Once again, ladies and gentlemen, please press star one should you wish to ask a question.

There are no further questions at this time. Please proceed.

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

Well, thank you, everybody, for attending the call. We really appreciate your questions. We hope we've answered your questions and provided you what you need to be excited about investing in our firm. We're doing a lot of great things and we appreciate your support. So everybody have a great rest of your day and we'll be talking to you in the next quarter. Thank you.

**Operator**

Thank you. Ladies and gentlemen, the conference has now ended. Thank you all for joining. You may all disconnect.