

# **BluMetric Environmental Inc.**

## **Management's Discussion & Analysis**

**Financial years Ended September 30, 2021 and September 30, 2020**  
(expressed in Canadian Dollars)

January 28, 2022

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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 year ended September 30, 2021. The MD&A should be read in conjunction with the Company's audited financial statements and related notes for the year ended September 30, 2021 as well as the MD&A and audited financial statements and notes for the year ended September 30, 2020. 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 for the Financial Year Ended September 30, 2021", "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 makes reference 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 Update – COVID – 19 Pandemic**

The global COVID-19 pandemic is now in its second year and continues to create volatility at local, national and global levels.

BluMetric has adapted its operations to effectively service its clients during the pandemic. Central to this has been the Company's Pandemic Response Plan, developed by its Industrial Hygiene/Occupational Health and Safety service line, which establishes health and safety processes to meet or exceed applicable guidelines set by government health authorities. The plan ensures that BluMetric prioritizes the health of its employees, their families, the community, and the Company's clients.

BluMetric's project work for the military market has been deemed essential throughout the pandemic. Other areas, such as real estate and industrial-commercial projects experienced some COVID-19 related postponements or slowdowns but have since shown signs of recovery. Additionally, the industrial hygiene/occupational health and safety service line was able to respond to the demand from customers for solutions to manage and mitigate COVID-19 impacts on their operations.

Significant uncertainty continues regarding both the impact of COVID-19 on the Company and its markets as Canada continues to roll-out vaccines and new COVID-19 variants emerge. Accordingly, estimates of the extent to which the pandemic may materially and adversely affect the Company's operations, financial results and condition in future periods are subject to significant uncertainty.

The Company continues to pursue new revenue contracts, actively manage costs and ensure adequate liquidity. BluMetric continues to monitor and actively manage the impacts from COVID-19 on its projects and operations and is well positioned to react quickly to changes in the business climate.

## **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 40 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 —Mining; Commercial and Industrial; Government; and Military— BluMetric's main services and products include:

- Engineering, Rehabilitation and Design
- Wastewater and Water Treatment Solutions
- Hydrogeology and Hydrology
- Environmental Due Diligence Assessments
- Waste Management (Solid, Liquid, Hazardous)
- Industrial Hygiene and Occupational Health and Safety
- Management Systems and Training

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. 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.

Despite the business interruption caused by COVID-19, which has placed some research and innovation initiatives on hold, the Company has expanded its standard products for water and wastewater treatment. This is 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 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.

Additionally, the Company still sees demand for solutions that reduce the ammonia concentration in wastewater due to stricter effluent limits for the mining market. BluMetric's ammonia removal process has been used in several full-scale treatment systems for mining customers.

BluMetric is committed to pursuing new opportunities in technology and innovation with respect to cost effective water solutions as they arise.

## **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 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 are able to 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 47% of the workforce from welders and field technicians to the executive team. 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.

### Selected Financial Information

The following table shows selected financial data for BluMetric for the three most recently completed fiscal years.

**For the years ended September 30, 2021, September 30, 2020 and September 30, 2019**

	2021 \$	2020 \$	2019 \$
Total revenue	35,478,683	28,621,333	28,252,230
Gross profit	9,421,425	6,123,280	5,861,762
Gross margin	27%	21%	21%
Operating expenses	4,782,788	4,930,768	4,899,743
Other operating items	-	(517,342)	-
Earnings before provision for income tax	4,327,050	1,201,978	479,207
Net earnings	3,725,644	471,459	350,918
Weighted average number of shares outstanding - basic	28,773,174	28,675,695	28,675,695
Earnings per share – basic and diluted	0.13	0.02	0.01
Total assets	17,420,328	15,516,691	12,452,982
Working capital	9,712,965	4,151,682	4,226,850
Non-current liabilities	1,589,998	964,185	2,761,805
Shareholders' equity	9,862,030	6,075,775	5,588,963

### Results of Operations for the Fourth Quarter Ended September 30, 2021

	Three months ended		Change \$	Change %
	September 30, 2021 \$	September 30, 2020 \$		
Revenue	9,699,459	10,419,507	(720,048)	-7%
Gross profit	2,345,318	2,860,665	(515,347)	-18%
Gross margin %	24%	27%		
Operating expenses	1,285,675	1,350,331	(64,656)	-5%
Other income	-	(328,266)	(328,266)	-100%
Operating profit	1,059,643	1,838,600	(778,957)	-42%
Adjusted EBITDA <sup>1</sup>	1,297,544	1,978,452	(680,908)	-34%
Earnings before income taxes	1,029,351	1,713,641	(684,290)	-40%
Income tax expense	(257,394)	491,486	(748,880)	-152%
Net earnings	1,286,745	1,222,155	64,590	5%
Weighted average common shares outstanding	28,773,174	28,675,695		
Earnings per share – basic and diluted	0.04	0.04		

*Note 1: EBITDA is a non-IFRS measure and is calculated as net income before interest expense, income taxes, depreciation, and amortization. Adjusted EBITDA is a non-IFRS measure and is calculated as EBITDA before irregular items, such as impairment of computer hardware (see 'Financial Terms and Definitions' for more detail on both measures).*

### Discussion of Results of Operations for the Financial Year Ended September 30, 2021

Revenue for the quarter ended September 30, 2021 was \$9.7 million compared to \$10.4 million for the quarter ended September 30, 2020. Revenue from the Commercial market increased mainly as a result of the Company providing COVID-19 compliance oversight services to clients. The Military market saw a decrease in revenue as a result of a reduction in the production schedule of the Company's shipboard reverse osmosis desalination (SROD) contract, which was partially offset by the ramping up of the production schedule for the Company's Seaspan Shipyard SROD contract. In addition, revenue from the Mining market decreased due to the completion of two large mining projects in Q2 FY 2021. Revenue from the Government market remained relatively consistent.

Gross profit was \$2.3 million for Q4 FY 2021 compared to \$2.9 million for Q4 FY 2020. Gross margin was 24% compared to 27%.

Operating expenses decreased slightly to \$1.3 million for the fourth quarter of 2021 compared to \$1.4 million for the same quarter in the previous year.

## Results of Operations for the Financial Year Ended September 30, 2021

	Year ended		Change \$	Change %
	September 30, 2021 \$	September 30, 2020 \$		
Revenue	35,478,683	28,621,333	6,857,350	24%
Gross profit	9,421,425	6,123,280	3,298,145	54%
Gross margin %	27%	21%		
Operating expenses	4,782,788	4,930,768	(147,980)	-3%
Gain on disposal of assets held for sale	-	(947,914)	(947,914)	-100%
Goodwill impairment	-	1,592,095	1,592,095	100%
Other income	-	(1,161,523)	(1,161,523)	-100%
Operating profit	4,638,637	1,709,854	2,928,783	171%
Adjusted EBITDA <sup>1</sup>	5,333,413	2,840,262	2,493,151	88%
Earnings before income taxes	4,327,050	1,201,978	3,125,072	260%
Income tax expense	601,406	730,519	(129,113)	-18%
Net earnings	3,725,644	471,459	3,254,185	690%
Weighted average common shares outstanding	28,773,174	28,675,695		
Earnings (loss) per share – basic and diluted	0.13	0.02		
Total assets	17,420,328	15,516,691		
Working capital	9,712,965	4,151,682		
Non-current liabilities	1,589,998	964,185		
Shareholders' equity	9,862,030	6,075,775		
Net cash (debt) <sup>2</sup>	2,793,351	(215,135)		

*Note 1: EBITDA is a non-IFRS measure and is calculated as net income before interest expense, income taxes, depreciation, and amortization. Adjusted EBITDA is a non-IFRS measure and is calculated as EBITDA before gain on disposal of assets held for sale, goodwill impairment and impairment of computer hardware (see 'Financial Terms and Definitions' for more information on both measures).*

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



### Discussion of Results of Operations for the Financial Year Ended September 30, 2021

Revenue for the year ended September 30, 2021 was \$35.5 million compared to \$28.6 million for the year ended September 30, 2020 and is broken down as follows:

	2021	2020	Change	Change
	\$	\$	\$	%
Commercial and Industrial	13,130,765	8,526,214	4,604,551	54%
Government	9,603,066	7,047,075	2,555,991	36%
Military	7,578,892	7,192,337	386,555	5%
Mining	5,165,960	5,855,707	(689,747)	-12%
	35,478,683	28,621,333		

The Commercial and Industrial market increased \$4.6 million in fiscal year 2021 compared to fiscal year 2020 primarily due to the Company's Industrial Hygiene - Occupational Health and Safety service line, which has introduced a new offering since the start of the pandemic to assist clients in developing and overseeing COVID protocols in their operations. The remaining increase is a result of increased activity in this market, which slowed down in the initial months of the pandemic. In particular, activity in real estate development has resulted in a project for contaminated site remediation monitoring and confirmation for the redevelopment of a large brownfield site in the greater Toronto area.

The Government market increased \$2.6 million year over year as a result of a number of projects, including the provision of COVID cleaning supplies for schools and daycares in communities throughout Nunavut and refining contaminant delineation and environmental management strategies at legacy remote contaminated communications sites in Nunavut. In addition, BluMetric continued to provide consulting services under a standing offer agreement with PSPC related to contaminated site assessment and remediation at federal sites in the Northern Territories, as well as providing industrial hygiene and occupational health and safety support services in the National Capital Region.

The Military market stayed relatively consistent year over year. The Company completed one more unit in FY 2021 than it had in the prior year on its shipboard reverse osmosis desalination (SROD) contract. This was offset by reduced activity under the Company's Seaspan Shipyard SROD contract. This reduction was anticipated and part of the contracted production schedule. Activity under this contract has started ramping up again in Q4 2021.

The Mining market decreased by \$690,000 compared to the prior year due to the completion of two large mining projects during FY 2021. The Company is shifting its focus toward higher value services and improving our new client portfolio, especially in northern Quebec. A new market leader for the Mining market has been recently hired to focus on business development opportunities in the sector.

Gross profit was \$9.4 million for FY 2021 compared to \$6.1 million for FY 2020. Gross margin was 27% compared to 21%.

Operating costs decreased slightly for the year ended September 30, 2021 to \$4.8 million compared to \$4.9 million in the prior year. The decrease is primarily explained by a reduction in credit loss provisions as some large outstanding accounts were collected and by lower levels of travel and conferences related to COVID-19 restrictions. These reductions were partially offset by higher spending on IT initiatives with respect to storage, backup and recovery capabilities, as well as IT security. In addition, occupancy costs increased due to the disposal of the Company's office building which has led to the leasing of office space in Ottawa.

For the year ended September 30, 2020, the Company recorded a gain on the disposal of its office building at 3108 Carp Road of \$948,000 and a government grant received for employee wages of \$1.2 million, which was almost entirely offset by a non-cash impairment charge of \$1.6 million as it was determined that the full carrying amount of goodwill was impaired. None of these costs were repeated in fiscal year 2021.

Finance costs were \$312,000 compared to \$508,000 in the prior year primarily due to the re-financing of the Company's \$2.0 million term loan on April 20, 2021. The new loan carries an interest rate of 3.28% per annum compared to an effective interest rate of 14% on the previous loan.

Net earnings for FY 2021 were \$3.7 million compared to a \$471,000 for FY 2020.

Net cash (see "Financial Terms and Definitions") as at September 30, 2021 was \$2.8 million, a \$3.0 million improvement from net debt of \$215,000 at September 30, 2020.

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

	Three months ended		Year ended	
	September 30, 2021 \$	September 30, 2020 \$	September 30, 2021 \$	September 30, 2020 \$
Net income	1,286,745	1,222,155	3,725,644	471,459
Finance costs	30,292	124,959	311,587	507,876
Income tax expense (recovery)	(257,394)	491,486	601,406	730,519
Depreciation and amortization	146,756	139,852	603,631	486,227
<b>EBITDA</b>	<b>1,206,399</b>	<b>1,978,452</b>	<b>5,242,268</b>	<b>2,196,081</b>
Impairment of computer hardware	91,145	-	91,145	-
Gain on disposal of assets held for sale	-	-	-	(947,914)
Impairment of goodwill	-	-	-	1,592,095
<b>Adjusted EBITDA</b>	<b>1,297,544</b>	<b>1,978,452</b>	<b>5,333,413</b>	<b>2,840,262</b>

The Company recorded adjusted EBITDA of \$5.3 million for the year ended September 30, 2021, compared with \$2.8 million for the year ended September 30, 2020. The increase in adjusted EBITDA is mainly due to increased project revenue (\$6.9 million increase year over year) and a higher gross margin (gross margin was 27% in FY 2021 compared to 21% in FY 2020).

For Q4 2021, the Company recorded adjusted EBITDA of \$1.3 million, compared with \$2.0 million for Q4 2020.

For more detail, see "Discussion of Results of Operations for the Financial Year Ended September 30, 2021" and "Quarterly Results".

## Quarterly Results

Quarterly financial information for the eight quarters ended September 30, 2021

(in 000's, except as otherwise indicated)

	Q4 2021 Sep 30, 2021 \$	Q3 2021 Jun 30, 2021 \$	Q2 2021 Mar 31, 2021 \$	Q1 2021 Dec 31, 2020 \$
Revenue	9,699	8,488	9,139	8,152
Cost of sales	7,354	6,295	6,475	5,933
Gross profit	2,345	2,193	2,664	2,220
Gross margin %	24%	26%	29%	27%
Operating expenses	1,286	1,147	1,199	1,151
Other income	-	-	-	-
Finance costs	30	40	122	120
Earnings before income taxes	1,029	1,005	1,343	949
Income tax expense	(257)	318	291	249
Net earnings	1,287	687	1,052	700
Weighted average common shares outstanding - basic	28,773,174	28,836,574	28,683,473	28,675,695
Earnings per share – basic and diluted	0.04	0.02	0.04	0.02
	Q4 2020 Sept 30, 2020 \$	Q3 2020 Jun 30, 2020 \$	Q2 2020 Mar 31, 2020 \$	Q1 2020 Dec 31, 2019 \$
Revenue	10,420	6,858	5,028	6,316
Cost of sales	7,559	5,516	4,538	4,885
Gross profit	2,861	1,342	490	1,431
Gross margin %	27%	20%	10%	23%
Operating expenses	1,350	1,118	1,308	1,155
Gain on disposal of assets held for sale	-	-	-	(948)
Goodwill Impairment	-	-	1,592	-
Other income	(328)	(833)	-	-
Finance costs	125	114	115	154
Earnings (loss) before income taxes	1,714	943	(2,525)	1,070
Income tax expense (recovery)	491	270	(257)	226
Net earnings (loss)	1,222	673	(2,268)	844
Weighted average common shares outstanding - basic	28,675,695	28,675,695	28,675,695	28,675,695
Earnings (loss) per share – basic and diluted	0.04	0.02	(0.08)	0.03

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 as a result of projects in the North that run in the summer season. Additionally, the Company has a number of 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. Q4 2021 vs Q4 2020: Q4 2020 includes a large project for the provision of COVID cleaning protocol training and supplies for schools in each community throughout Nunavut, as well as two large mining projects which were completed by Q4 2021. Q4 2021 includes a large project related to COVID-19 compliance observation, a number of government contract call ups under existing standing orders, as well as a site remediation project for the development of a brownfield property. The Company also received other income of \$328,000 in the period ended September 30, 2020 as a subsidy for employee wages.
2. Q3 2021 vs Q3 2020: Q3 2021 includes a large project related to COVID-19 for compliance observation which contributed \$1.0 million in revenue during the quarter. The Company recognized other income of \$833,000 in Q3 2020 related to a subsidy for employee wages.
3. Q2 2021 vs Q2 2020: Q2 2021 includes a number of large projects related to COVID-19 for compliance observation and for the provision of COVID cleaning supplies for schools in each community throughout Nunavut. Combined, these projects contributed \$2.2 million in revenue during the quarter. Additionally, an increase of activity on one of the Company's contracts in the Military market contributed an additional \$1.2 million to revenue in Q2 2021 over Q2 2020. The Company recognized an impairment of its goodwill of \$1.6 million in Q2 2020.
4. Q1 2021 vs Q1 2020: Q1 2021 includes large projects related to COVID-19 for compliance observation and for the provision of COVID cleaning supplies for schools in each community throughout Nunavut. Combined, these projects contributed \$1.8 million in revenue during the quarter. In addition, Q1 2020 includes a gain on sale of \$948,000 related to the sale of the Company's office building at 3108 Carp Road.

## Summary of Cash Flows

	September 30, 2021 \$	Year ended September 30, 2020 \$
<b>Cash provided by (used in)</b>		
Operating activities, excluding changes to working capital	4,929,481	2,736,241
Changes related to working capital	(1,275,348)	(69,244)
Operating activities	3,654,133	2,666,997
Investing activities	(191,516)	961,085
Financing activities	(1,205,199)	(1,401,178)
Change in cash and cash equivalents	2,257,418	2,226,904
Cash and cash equivalents – Beginning of period	2,470,002	243,098
Cash and cash equivalents – End of period	4,727,420	2,470,002
Free cash flow <sup>1</sup>	2,975,444	3,241,004

*Note 1: Free cash flow is a non-IFRS measure and is calculated as operating cash flows less net capital expenditures and net payment of lease obligations (see 'Financial Terms and Definitions').*

Cash produced from operating activities was \$3.7 million during the year ended September 30, 2021, compared with cash produced from operating activities of \$2.7 million in the same period in 2020. Improved revenue and gross margin accounted for the majority of the increase from operating activities. However, this was partially offset by an unfavourable swing in working capital for the fiscal year 2021 due to the timing of payments of trade accounts payable.

Investing activities consumed \$191,516 of cash in fiscal year 2021 compared to cash provided by investing activities of \$1.0 million in the same period for 2020. In fiscal year 2021, strategic investments in field equipment were made, whereas in fiscal year 2020, the Company sold its office building at 3108 Carp Road, which provided net proceeds of \$1.1 million.

In the fiscal year 2021, cash used in financing activities was \$1.2 compared to cash used by financing activities of \$1.4 million in the same period of 2020. During the year ended September 30, 2021, the Company made principal payments of \$500,000 on its existing term debt before refinancing the remaining \$2.0 million through a new lender on April 20, 2021. This compared to the same period of 2020, where the Company paid down its \$925,000 demand loan using the proceeds from the sale of its office building at 3108 Carp Road.

Free cash flow decreased to \$2.9 million in the fiscal year of 2021 from \$3.2 million in the same period of 2020. The decrease of \$300,000 is related to the sale of the Company's office building at 3108 Carp Road in Q1 2020, which provided net proceeds of \$1.1 million, as well as acquisitions made during fiscal year 2021 related to field equipment which will enhance the Company's service offerings. However, this was offset by an increase in cash from improved operations in the current year.

### **Liquidity**

The Company's short-term credit facilities consist of an operating demand loan 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 2.25%, is collateralized by a first ranking general security agreement over all of the Company's present and future assets, is subject to margining based on the amounts of eligible accounts receivable and has no contractual maturity.

For the period ended September 30, 2021, the effective interest rate under this facility was 4.7% (2020 – 4.7%). As at September 30, 2021, the Company had drawn \$nil on its operating facility and \$nil in letters of credit (Sep 30, 2020 – \$nil and \$nil respectively). The Company's eligible accounts receivable exceeded the margining threshold, making the \$2.5 million facility fully available to the Company.

On April 20, 2021, the Company entered into a letter of agreement with its bank for a new \$2.0 million term loan. The proceeds from the new term loan were used to extinguish the existing term loan that was due to expire August 15, 2021. The new 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. The interest rate of 3.28% for the new term loan compares to an effective interest rate of 14% on the prior loan and is expected to generate significant interest savings for the Company over the next four years. The new term loan 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 September 30, 2021, the Company had approximately \$7.2 million in availability between its operating line and cash balances and was in compliance with all its covenants.

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Financial Years Ended September 30, 2021 and  
September 30, 2020

The following table outlines the liquidity risk associated with the Company's payment obligations as at September 30, 2021 and September 30, 2020, respectively:

	<b>Less than 1 year</b>	<b>1 – 5 years</b>	<b>Total undiscounted cash flow</b>	<b>Effect of interest</b>	<b>2021 Carrying value</b>
	\$	\$	\$	\$	\$
Trade and other payables	3,877,520	57,625	3,935,145	-	3,935,145
Lease liabilities (IFRS 16)	427,609	278,074	705,683	37,208	668,475
Long-term debt	534,199	1,379,893	1,914,092	110,412	1,803,680
Due to shareholders	130,389	-	130,389	-	130,389
	<u>4,969,717</u>	<u>1,715,592</u>	<u>6,685,309</u>	<u>147,620</u>	<u>6,537,689</u>

	<b>Less than 1 year</b>	<b>1 – 5 years</b>	<b>Total undiscounted cash flow</b>	<b>Effect of interest</b>	<b>2020 Carrying value<sup>1</sup></b>
	\$	\$	\$	\$	\$
Trade and other payables	5,268,289	25,000	5,293,289	-	5,293,289
Lease liabilities (IFRS 16)	560,176	773,760	1,333,936	100,271	1,233,665
Long-term debt	2,689,616	232,143	2,921,759	292,103	2,629,656
Advances	3,500	64,000	67,500	17,500	50,000
Due to shareholders	-	16,638	16,638	-	16,638
	<u>8,521,581</u>	<u>1,111,541</u>	<u>9,633,122</u>	<u>409,874</u>	<u>9,223,248</u>

<sup>1</sup> Long term debt is stated on a gross basis of \$2,465,000 rather than net of deferred financing fees



## 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 personnel to support growth and market expansion. The Company is planning to invest in leadership in the Commercial and Industrial market to take advantage of emerging opportunities. Furthermore, BluMetric will continue to build on a strong 2021 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:

- Utilizing the Company's position as an established provider of Industrial Hygiene / Occupational Health and Safety expertise to assist new and existing clients with COVID-19 related challenges;
- The Company's diversified service offerings and market sectors;
- The implementation of a Pandemic Response Plan to ensure compliance with health and safety guidelines in case of further resurgences of COVID-19; and
- Interest cost reductions related to a decline in effective interest on the Company's term debt from 14% to 3.28%. This equates to a reduction of approximately \$250,000 in finance costs on an annualized basis.

## 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:

- The COVID-19 pandemic;
- Macroeconomic risk of recession in key markets or the economy as a whole;
- Reliance on key clients;
- Failure to retain and develop key personnel;
- Competition from companies which are better-financed or have disruptive technologies;
- Potential claims and litigations; and
- Cybersecurity threats.

COVID-19's impact on Canada was strongly felt in March 2020. Local governments in the jurisdictions served by BluMetric declared a state of emergency and implemented physical distancing measures to reduce the spread of COVID-19, which included the closure of non-essential businesses and travel restrictions. Since March 2020, Canada and the United States have loosened and tightened pandemic related emergency restrictions based on the number of COVID-19 cases and rate of spread. Large unknown risks as a result of COVID-19 remain.

Potential impacts on BluMetric related to COVID-19 include:

- Government response and related shut-downs to remediate on-going waves of COVID-19;
- Vendor price increases as they attempt to pass-through higher costs;
- Continued or additional suspensions at some of the Company's projects;
- Delays at other projects to ensure health and safety standards are met;
- Supply disruptions related to materials or labour;
- Deferrals in the bidding process for some projects;
- Pressure on charge rates;
- Clients seeking price concessions due to weak economic conditions; and
- Pandemic fatigue.

The duration and full financial effect of the COVID-19 pandemic is still unknown at this time and is subject to significant uncertainty. Accordingly, the COVID-19 pandemic may materially and adversely affect the Company's operations and financial results.

Factors mitigating the impact of COVID-19 include:

- The deemed "essential" nature of many of BluMetric's projects;
- Diversification of the Company's service offerings by market sectors;
- The implementation of a Pandemic Response Plan to ensure compliance with health and safety guidelines;
- Utilizing the Company's position as an established provider of Industrial Hygiene / Occupational Health and Safety expertise to assist new and existing clients with COVID-19 related challenges.
- 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.

### **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, 2021.

### Off-Balance Sheet Arrangements

Many of the Company's operating leases have fallen under IFRS 16 as implemented on October 1, 2019 and are now capitalized on the Statement of Financial Position. For contractual commitments not recognized on the Statement of Financial Position, the reader is referred to Note 22 of the Company's audited financial statements for the year ended September 30, 2021.

### 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 during the period was as follows:

	Three months ended		Year ended	
	September 30, 2021 \$	September 30, 2020 \$	September 30, 2021 \$	September 30, 2020 \$
Salaries	226,000	198,888	944,594	1,026,931
Short-term benefits	23,110	24,519	98,302	102,800
Share-based compensation	-	3,911	16,411	15,353
	249,110	227,319	1,059,307	1,145,084

### Proposed Transactions and Subsequent Events

There are no proposed transactions or subsequent events for year ended September 30, 2021.

### Summary of Outstanding Shares and Dilutive Instruments

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

Shares: 28,895,695 common shares  
Options: 620,000 options

### Inter-Corporate Relationships

There are no inter-corporate relationships for the year ended September 30, 2021.

## 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 and 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 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 operating cash flows less capital expenditures and net payment of lease obligations. The Company uses this measure as part of assessing the availability of discretionary cash as part of its liquidity management. There is no directly comparable IFRS measure under IFRS.

**Net cash (debt):** Net cash (debt) 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 directly comparable measure under IFRS.

### **Management's Responsibility for Financial Reporting**

The audited 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 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).