

BluMetric Environmental Inc.

Condensed Unaudited Interim Financial
Statements

For the Three Months Ended

December 31, 2021

(unaudited, expressed in Canadian dollars)

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying condensed unaudited interim financial statements of the company have been prepared by, and are the responsibility of, the company's management.

The company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of condensed interim financial statements by an entity's auditor.

BluMetric Environmental Inc.
Condensed Unaudited Interim Statements of Financial Position
As at December 31, 2021 and September 30, 2021

(expressed in Canadian dollars)

	December 31, 2021 \$	September 30, 2021 \$
Current assets		
Cash	4,250,347	4,727,420
Accounts receivable (note 4)	4,648,812	4,717,157
Unbilled revenue	3,184,377	3,156,000
Contract assets	2,459,365	2,902,644
Prepaid expenses	535,630	178,044
	<u>15,078,531</u>	<u>15,681,265</u>
Non-current assets		
Property and equipment	211,851	183,299
Intangible assets	50,621	50,589
Right-of-use assets (note 5)	538,460	608,804
Deferred income tax assets	740,431	896,371
	<u>1,541,363</u>	<u>1,739,063</u>
	<u>16,619,894</u>	<u>17,420,328</u>
Current liabilities		
Trade and other payables (note 7)	3,375,788	3,935,145
Contract liabilities	422,605	1,020,609
Current portion of lease liabilities (note 5)	381,412	399,912
Current portion of long-term debt (note 8)	486,210	612,634
	<u>4,666,015</u>	<u>5,968,300</u>
Non-current liabilities		
Long-term debt (note 8)	1,198,384	1,321,435
Lease liabilities (note 5)	216,565	268,563
	<u>1,414,949</u>	<u>1,589,998</u>
	<u>6,080,964</u>	<u>7,558,298</u>
Shareholders' Equity		
Share capital	5,787,000	5,600,081
Contributed surplus and other equity	628,364	690,584
Retained earnings	4,123,566	3,571,365
	<u>10,538,930</u>	<u>9,862,030</u>
	<u>16,619,894</u>	<u>17,420,328</u>

Approved by the Board of Directors

 "Ian Mor Macdonald"
 Ian Mor Macdonald

Director

 "Geoff Simonett"
 Geoff Simonett

Director

BluMetric Environmental Inc.

Condensed Unaudited Interim Statements of Changes in Shareholders' Equity For the three months ended December 31, 2021 and 2020

(expressed in Canadian dollars)

	Common shares #	Share capital \$	Contributed surplus and other equity \$	Retained earnings (deficit) \$	Total \$
Balance – October 1, 2020	28,675,695	5,526,964	703,090	(154,279)	6,075,775
Share-based compensation	-	-	3,985	-	3,985
Net earnings and comprehensive income for the period	-	-	-	699,843	699,843
Balance – December 31, 2020	<u>28,675,695</u>	<u>5,526,964</u>	<u>707,075</u>	<u>545,564</u>	<u>6,779,603</u>
Balance – October 1, 2021	28,895,695	5,600,081	690,584	3,571,365	9,862,030
Share-based compensation (note 9)	-	-	4,699	-	4,699
Exercise of stock options (note 9)	500,000	186,919	(66,919)	-	120,000
Net earnings and comprehensive income for the period	-	-	-	552,201	552,201
Balance – December 31, 2021	<u>29,395,695</u>	<u>5,787,000</u>	<u>628,364</u>	<u>4,123,566</u>	<u>10,538,930</u>

BluMetric Environmental Inc.

Condensed Unaudited Interim Statements of Net Earnings and Comprehensive Income For the three months ended December 31, 2021 and 2020

(expressed in Canadian dollars)

	For the three months ended	
	December 31, 2021	December 31, 2020
	\$	\$
Revenue (notes 13, 14)	7,816,254	8,152,189
Cost of sales (note 10)	5,771,339	5,932,621
Gross profit	2,044,915	2,219,568
Operating expenses and other items Selling, general and administrative (note 10)	1,265,374	1,151,100
Operating profit	779,541	1,068,468
Finance costs (note 10)	32,650	119,540
Earnings before income taxes	746,891	948,928
Income tax expense (note 11)	194,690	249,085
Net earnings and comprehensive income for the period	552,201	699,843
Earnings per share		
Basic	0.02	0.02
Diluted	0.02	0.02
Weighted average number of shares outstanding (note 12)		
Basic	29,064,173	28,675,695
Diluted	29,228,459	28,696,799

BluMetric Environmental Inc.
Condensed Unaudited Interim Statements of Cash Flows
For the three months ended December 31, 2021 and 2020

(expressed in Canadian dollars)

	For the three months ended	
	December 31, 2021	December 31, 2020
	\$	\$
Cash provided by (used in)		
Operating activities		
Net earnings and comprehensive income for the period	552,201	699,843
Non-cash items		
Deferred income tax expense (note 11)	155,940	249,085
Increase (decrease) in credit loss allowance	(2,084)	62,640
Depreciation of property and equipment	17,059	13,887
Amortization of intangible assets	3,569	2,547
Amortization of right-of-use assets (note 5)	112,241	136,148
Amortization of deferred financing costs	-	2,789
Share-based compensation (note 9)	4,699	3,985
Change in working capital balances	<u>(1,030,538)</u>	<u>(733,921)</u>
	<u>(186,913)</u>	<u>437,003</u>
Investing activities		
Acquisition of property and equipment	(45,611)	(42,205)
Acquisition of intangible assets	<u>(3,601)</u>	<u>(884)</u>
	<u>(49,212)</u>	<u>(43,089)</u>
Financing activities		
Repayment of long-term debt	(249,475)	(105,000)
Principal payments on leases (note 5)	(111,473)	(100,341)
Exercise of stock options (note 9)	<u>120,000</u>	<u>-</u>
	<u>(240,948)</u>	<u>(205,341)</u>
Change in cash and cash equivalents during the period	(477,073)	188,573
Cash and cash equivalents – Beginning of period	<u>4,727,420</u>	<u>2,470,002</u>
Cash and cash equivalents – End of period	<u>4,250,347</u>	<u>2,658,575</u>
Supplementary information		
Interest paid	14,465	96,675
Income taxes paid	32,246	-

BluMetric Environmental Inc.

Notes to Condensed Unaudited Interim Financial Statements

For the three months ended December 31, 2021 and 2020

(expressed in Canadian dollars)

1 Nature of operations

BluMetric Environmental Inc. (the Company) is an integrated product and service organization providing sustainable solutions to complex environmental issues in Canada and abroad. The Company serves customers in many industrial sectors, and at all levels of government, both domestically and internationally.

The Company focuses on environmental earth sciences and engineering, contaminated site remediation, water resource management, industrial hygiene, occupational health and safety, water and wastewater design-build and pre-engineered solutions.

The head office of the Company is located at 1682 Woodward Drive Ottawa, Ontario, Canada K2C 3R8. The Company's common shares are listed on the Toronto Venture Exchange (TSX-V – BLM) in Canada.

2 Basis of presentation

Statement of compliance

These condensed unaudited interim financial statements have been prepared in compliance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34"). These condensed unaudited interim financial statements do not contain all the information and disclosures required for annual financial statements and should be read in conjunction with the annual audited financial statements of the Company for the year ended September 30, 2021, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB) and the interpretations of the IFRS Interpretations Committee.

Authorization of financial statements

The condensed interim financial statements were approved and authorized for issue by the Board of Directors on February 24, 2022.

Presentation and functional currency

The Company's presentation and functional currency is the Canadian dollar.

Basis of measurement

The condensed unaudited interim financial statements have been prepared on the historical cost basis.

Critical accounting judgments and estimates

The preparation of these condensed unaudited interim financial statements requires management to make judgments, estimates, and assumptions that affect the reported amounts of the Company's assets, liabilities, revenue, and expenses during the reporting period presented. The significant judgments made by management when applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Company's September 30, 2021 annual financial statements.

BluMetric Environmental Inc.

Notes to Condensed Unaudited Interim Financial Statements

For the three months ended December 31, 2021 and 2020

(expressed in Canadian dollars)

COVID-19

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. Governments in the jurisdictions in which the Company operates declared a state of emergency in response to the COVID-19 pandemic. These government directives have led to significant volatility in local and global markets. Initially, in fiscal year 2020, the Company experienced negative impacts to a number of its projects as customers adjusted operations. However, these projects were re-started later in fiscal year 2020 and the Company was also able to pivot to provide some COVID-19 specific services.

Significant uncertainty continues regarding the length of time it will take for the economy to return to pre-COVID-19 levels. 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 also subject to significant uncertainty.

The Company's ECL model relies heavily on past collection rates to develop an estimate for current year ECLs. Further, forward-looking information is incorporated to determine an appropriate ECL allowance. Due to the unique nature of the pandemic and wide range of potential macro economic impacts on the Company and its customers, estimates of the collectability of the Company's financial assets could differ materially from actual results.

The Company continues to monitor and actively manage the developing impacts from COVID-19, including but not limited to the potential future effects on its assets, cash flows and liquidity. Other than adjusting events that provide evidence of conditions that existed at the end of the reporting period, the impact of events that arise after the reporting period will be accounted for in future reporting periods.

3 Summary of significant accounting policies

The accounting policies set out in the Company's most recent annual financial statements have been applied consistently to all periods presented in these condensed unaudited interim financial statements. As such, these condensed unaudited interim financial statements should be read in conjunction with the annual financial statements and related note disclosures for the year ended September 30, 2021.

4 Accounts receivable

	December 31, 2021 \$	September 30, 2021 \$
Trade and other receivables	4,943,362	5,013,706
Credit loss allowance – accounts receivable	(294,550)	(296,549)
	<u>4,648,812</u>	<u>4,717,157</u>

BluMetric Environmental Inc.
Notes to Condensed Unaudited Interim Financial Statements
For the three months ended December 31, 2021 and 2020

(expressed in Canadian dollars)

5 Right-of-use assets and lease liabilities

Information about leases for which the Company is a lessee are presented below:

	Right-of-use assets			
	Offices	Vehicles	IT equipment	Total
	\$	\$	\$	\$
Balance – October 1, 2021	580,882	4,495	23,427	608,804
Additions	59,467	-	-	59,467
Disposals	-	-	(17,570)	(17,570)
Amortization	(104,699)	(1,685)	(5,857)	(112,241)
Balance – December 31, 2021	535,650	2,810	-	538,460
	Lease liabilities			
	Offices	Vehicles	IT equipment	Total
	\$	\$	\$	\$
Balance – October 1, 2021	639,251	4,762	24,462	668,475
Additions	59,467	-	-	59,467
Disposals	-	-	(18,500)	(18,500)
Cash interest paid	12,961	32	339	13,332
Gross payments	(116,634)	(1,862)	(6,301)	(124,797)
Balance – December 31, 2021	595,045	2,932	-	597,977
Less: Current portion				381,412
Non-current portion				216,565

BluMetric Environmental Inc.
Notes to Condensed Unaudited Interim Financial Statements
For the three months ended December 31, 2021 and 2020

(expressed in Canadian dollars)

	Right-of-use assets			
	Offices	Vehicles	IT	Total
	\$	\$	equipment	\$
			\$	
Balance – October 1, 2020	1,100,358	28,690	77,970	1,207,018
Disposals	-	(16,484)	-	(16,484)
Amortization	(125,165)	(3,140)	(7,843)	(136,148)
Balance – December 31, 2020	975,193	9,066	70,127	1,054,386

	Lease liabilities			
	Offices	Vehicles	IT	Total
	\$	\$	equipment	\$
			\$	
Balance – October 1, 2020	1,123,720	29,806	80,139	1,233,665
Disposals	-	(17,408)	-	(17,408)
Cash interest paid	16,022	341	1,102	17,465
Gross payments	(105,690)	(3,536)	(8,580)	(117,806)
Balance – December 31, 2020	1,034,052	9,203	72,661	1,115,916
Less: Current portion				<u>521,996</u>
Non-current portion				<u>593,920</u>

Lease liabilities are discounted using the Company's incremental borrowing rate at the lease commencement date for each lease. The rates range from 2.99% to 5.95%.

The Company leases buildings for its office spaces across Canada. Lease terms range from less than one to eight years. To provide operational flexibility, the Company seeks to include extension or termination options in its leases. At the commencement of a lease, the Company assesses whether it is reasonably certain it will exercise the lease extension option (or not exercise a termination option). The Company reassesses this when a significant event or significant change in circumstances within the Company's control has occurred.

The Company leases vehicle and office equipment with terms of three to five years. These leases do not usually contain extension options, purchase options, or residual value guarantees. The Company also leases IT equipment and other equipment with terms of one to five years. These leases are generally short-term or for low-value assets that the Company has elected not to recognize in right-of-use assets and lease liabilities.

BluMetric Environmental Inc.
Notes to Condensed Unaudited Interim Financial Statements
For the three months ended December 31, 2021 and 2020

(expressed in Canadian dollars)

	For the three months ended	
	December 31, 2021	December 31, 2020
Amounts recognized in selling, general and administrative	\$	\$
Rent expense – variable lease payments	55,679	46,010
Expense related to short-term leases	56,035	49,966
Expense related to low-value assets	18,490	12,624
Income from subleases	(2,461)	(2,461)
	<u>127,743</u>	<u>106,139</u>

	For the three months ended	
	December 31, 2021	December 31, 2020
Amounts recognized in the statements of cash flow	\$	\$
Cash payments for the interest portion of lease liabilities	13,331	17,465
Cash payments for leases not included in the measurement of lease liabilities	<u>127,742</u>	<u>106,139</u>
Cash outflow in operating activities	141,073	123,604
Cash payments for the principal portion of lease liabilities included in financing activities	<u>111,473</u>	<u>100,341</u>
Total cash flow for leases	<u>252,546</u>	<u>223,945</u>

6 Credit facilities

The Company has a \$2,500,000 operating demand loan available to it as a shared limit between its overdraft facility and letters of credit. The Company has a maximum limit of \$500,000 for the issuance of letters of credit.

As at December 31, 2021, the Company had drawn \$nil on its operating demand loan and \$nil in letters of credit (September 30, 2021 – \$ nil and \$nil, respectively).

The Company has certain covenants in accordance with its credit facilities. As at December 31, 2021, the Company was in compliance with all its covenants.

The Company also has a corporate credit card facility in the amount of \$165,000. As at December 31, 2021, the Company had utilized \$53,302 (September 30, 2021 – \$46,089) against this facility, which is recorded under trade and other payables in the statements of financial position.

BluMetric Environmental Inc.
Notes to Condensed Unaudited Interim Financial Statements
For the three months ended December 31, 2021 and 2020

(expressed in Canadian dollars)

7 Trade and other payables

	December 31, 2021	September 30, 2021
	\$	\$
Trade payables	1,332,980	2,207,931
Salaries and benefits payable	697,840	865,925
Other accrued liabilities and payables	1,344,968	861,289
	<u>3,375,788</u>	<u>3,935,145</u>

8 Long-term debt

	December 31, 2021	September 30, 2021
	\$	\$
Term loan, bearing interest at 3.28% ^(a)	1,684,594	1,803,680
Restructured trade debt ^(b)	-	130,389
	<u>1,684,594</u>	<u>1,934,069</u>
Less: Current portion	486,210	612,634
	<u>1,198,384</u>	<u>1,321,435</u>

(a) 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. This term loan matures April 30, 2025, will be carried at amortized cost and is subject to the same covenants as the Company's credit facilities. As at December 31, 2021, the Company was in compliance with all its covenants.

(b) On November 15, 2012, the Company reached an agreement with a number of creditors with respect to repayment terms for outstanding amounts payable. The agreement required the Company to repay this amount on a monthly basis, with blended payments of principal and interest. This restructured trade debt was previously postponed in favour of the Company's lender. The remaining balance was subsequently released by the lender and repaid in full on December 1, 2021.

BluMetric Environmental Inc.
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For the three months ended December 31, 2021 and 2020

(expressed in Canadian dollars)

9 Shareholders' equity

Share-based compensation

The fair value of options vested is recognized as compensation cost.

During the three months ended December 31, 2021, the Company recognized \$4,699 (2020 – \$3,985) in share-based compensation expense and had 500,000 options exercised with an exercise price of \$0.24, a market price of \$0.72, and total proceeds of \$120,000.

10 Other expense items by nature

	For the three months ended	
	December 31, 2021 \$	December 31, 2020 \$
Personnel	3,401,040	3,379,148
Direct project expenses	2,815,102	2,970,408
Depreciation and amortization	132,869	152,582
Other operating expense	687,702	581,583
	7,036,713	7,083,721
Reported as:		
Cost of sales	5,771,339	5,932,621
Selling, general and administrative	1,265,374	1,151,100
	7,036,713	7,083,721
Finance costs		
Interest on restructured debt	-	3,675
Interest on term loan and bank loans	14,465	91,915
Interest on leases	13,332	17,465
Bank charges	3,652	3,675
Other finance charges	1,201	2,809
	32,650	119,540

BluMetric Environmental Inc.
Notes to Condensed Unaudited Interim Financial Statements
For the three months ended December 31, 2021 and 2020

(expressed in Canadian dollars)

11 Income tax

The following shows the components of income tax expense:

	<u>For the three months ended</u>	
	December 31, 2021	December 31, 2020
	\$	\$
Current tax expense	38,750	-
Deferred tax expense	155,940	249,085
	<u>194,690</u>	<u>249,085</u>

12 Weighted average shares outstanding

	<u>For the three months ended</u>	
	December 31, 2021	December 31, 2020
	\$	\$
Issued common shares	29,395,695	28,675,695
Weighted average number of basic common shares	29,064,173	28,675,695
Effect of share options on issuance	164,286	21,104
Weighted average number of diluted common shares	<u>29,228,459</u>	<u>28,696,799</u>

Options that were anti-dilutive are not included in the computation of diluted common shares. For the three months ended December 31, 2021, no options were excluded from the calculation because they were anti-dilutive (2020 – 730,000).

13 Segmented disclosure

The Company provides comprehensive solution-based products and services in the fields of environmental geosciences and engineering, industrial hygiene, occupational health and safety, water and wastewater treatment and environmental management predominately in Canada.

The Company operates under one operating and reportable segment due to the integration between technical disciplines required to serve its customers.

BluMetric Environmental Inc.
Notes to Condensed Unaudited Interim Financial Statements
For the three months ended December 31, 2021 and 2020

(expressed in Canadian dollars)

The chief operating decision maker is (collectively) the Chief Executive Officer, the Chief Financial Officer and the Board of Directors. Performance is evaluated by the chief operating decision maker based on gross margin and is measured consistently with gross margin in the financial statements.

Geographical information

The Company operates principally in Canada (country of domicile). Sales reported by customer location based on origin of purchase (i.e., country of domicile of contracting party) are as follows:

	<u>For the three months ended</u>	
	December 31, 2021	December 31, 2020
	\$	\$
Canada	7,792,539	8,108,599
Other countries	23,715	43,590
	<u>7,816,254</u>	<u>8,152,189</u>

For the three months ended December 31, 2021, approximately 29% of revenue (2020 – 41%) was derived from three customers. The customers referenced below are not necessarily the same customers in both periods.

	<u>For the three months ended</u>	
	December 31, 2021	December 31, 2020
Customer 1	11%	16%
Customer 2	11%	13%
Customer 3	8%	12%

The Company does not currently, or in the ordinary course of business, hold non-current assets outside of its country of domicile (Canada).

BluMetric Environmental Inc.
Notes to Condensed Unaudited Interim Financial Statements
For the three months ended December 31, 2021 and 2020

(expressed in Canadian dollars)

14 Revenue

Disaggregation of revenue

Revenue is disaggregated by customer sector and contract type, since it best depicts how the nature, timing and uncertainty of revenue and cash flows are affected by economic factors.

Revenue from contracts with customers is disaggregated as follows:

	For the three months ended		
	December 31, 2021		
	\$		
	Fixed price	Time and	Total
	\$	materials	\$
	\$	\$	\$
Commercial and industrial	895,918	2,186,857	3,082,775
Government	983,229	1,225,163	2,208,392
Military	439,502	707,514	1,147,016
Mining	21,930	1,356,141	1,378,071
	2,340,579	5,475,675	7,816,254
	December 31, 2020		
	\$		
	Fixed price	Time and	Total
	\$	materials	\$
	\$	\$	\$
Commercial and industrial	608,170	2,419,803	3,027,973
Government	1,250,282	844,861	2,095,143
Military	156,935	1,015,298	1,172,233
Mining	407,955	1,448,885	1,856,840
	2,423,342	5,728,847	8,152,189

Revenue from the vast majority of the Company's contracts is recognized over time because of the continuous transfer of control to the customer. For the three months ended December 31, 2021, \$355,124 or 5% (2020 – \$869,819 or 11%) was recognized at a point in time, which primarily related to mining sector customers.

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(expressed in Canadian dollars)

15 Related party transactions

Compensation of key management personnel

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

	For the three months ended	
	December 31, 2021	December 31, 2020
	\$	\$
Salaries	239,250	200,431
Short-term benefits	23,921	25,374
Share-based compensation	4,699	3,986
	267,870	229,791

16 Liquidity risk

Liquidity risk is the risk the Company may not be able to meet its financial obligations as they come due. The Company currently settles all of its financial obligations out of cash and its operating demand loan facility. The ability to do so relies on the Company collecting its accounts receivable in a timely manner and by maintaining sufficient cash in excess of anticipated needs.

As at December 31, 2021, the Company had the following balances available on its credit facilities: operating demand loan – \$2,500,000; and credit card facility – \$ 111,698. With respect to margining for the operating demand loan, as at December 31, 2021, the Company's eligible accounts receivable exceeded the margining threshold and therefore the facility was fully available to the Company.

As at December 31, 2021, the Company had approximately \$6.8 million in availability between its operating line and cash balances.