

BLUMETRIC ENVIRONMENTAL INC.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE MONTHS ENDED DECEMBER 31, 2022

(expressed in Canadian Dollars)

February 28, 2023

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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 three months ended December 31, 2022. The MD&A should be read in conjunction with the Company's audited financial statements and related notes for the year ended September 30, 2022 as well as the MD&A and audited financial statements and notes for the year ended September 30, 2021. 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 Three Months Ended December 31, 2022", "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 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 over 45 years, the Company has evolved into a full-service integrator of environmental solutions known for innovative work in the fields of water/wastewater treatment and professional environmental services.

With a focus on four key markets — Commercial and Industrial; Government; Military and Mining— BluMetric's main services and products include:

- Environmental Engineering, Monitoring and Compliance
- Site Assessment and Remediation
- Water Resources and Geomatics
- Cleantech – treatment of water and wastewater
- Industrial Hygiene and Occupational Health and Safety

BluMetric's comprehensive, affordable offerings are tailored to the specific needs of not only each industry, but also each client. With innovation, agility and client-responsive service as its hallmarks, the Company builds partnerships with its customers by delivering a long-term, holistic approach to managing their complete environmental needs and health and safety responsibilities. It is this high degree of service that differentiates BluMetric from competitors. Our business philosophy results in long term client relationships and resilient repeat business.

BluMetric's team of approximately 170 dedicated and passionate employees and its client-centric approach form the underpinning of its success, contributing to the following core elements of its value proposition:

- Solution-oriented consultation, design, products and construction services
- Turn-key solutions – BluMetric provides a complete end-to-end solution from assessment and evaluation to implementation to ongoing service and management
- World class expertise in the analysis, management and treatment of water in the environment
- Water treatment solutions that are compact, energy efficient, reliable and simple to operate

The Company has 10 offices across Ontario, Quebec, Yukon and Northwest Territories. BluMetric is proud to be a trusted provider of services to many of Canada's northern Indigenous communities.

Technology and Innovation

Innovation is driven by client demands as they face more stringent environmental regulations and everchanging world events. BluMetric's creative process for addressing problems consists of developing solutions that are both scientifically sound and economically viable.

The Company has expanded its standard products for water and wastewater treatment, 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 emergency potable water treatment system and a mobile wastewater treatment plant. These resilient water solutions are highly flexible and cost efficient and allow for rapid deployments for temporary needs, such as mineral exploration and humanitarian relief. The prototype designs are based on BluMetric's mobile militarized systems which provides emergency potable water to almost any community in Canada for 90 days when there is a community facing potable water issues. The wastewater system includes state of the art filtration technology that is more rugged for deployments and decreased operational and maintenance costs. Both prototypes are expected to be completed in the spring of 2023. In addition, our new agile systems have been drawing international interest as they are well placed to support critical water needs in areas of global conflict.

BluMetric is committed to pursuing new opportunities in technology and innovation.

Sales and Marketing

BluMetric's business development efforts are primarily focused on four key markets where the Company has identified the greatest demand for its products and services:

- Commercial and Industrial
- Government (with specific expertise in Northern Canada)
- Military
- Mining

BluMetric uses a client-centric approach to business development, which involves an emphasis on understanding each client's environmental issues and then identifying and preventing potential problems. This approach allows BluMetric to provide a complete and integrated solution.

Satisfied clients provide repeat business as well as incredibly valuable word-of-mouth referrals. BluMetric continues to actively leverage the successes of past projects to expand and diversify client relationships, strategic partnerships and service offerings.

Board of Directors

The Board currently consists of five members, three of whom are independent. The independent directors reflect a wide range of senior experience in the management of publicly traded and privately held companies. The Board members have expertise in business development, finance, operations, management, and governance.

Executive Management

The Senior Management team comprises: Scott MacFabe, Chief Executive Officer; Vivian Karaiskos, Chief Financial Officer; Wayne Ingham, VP, Director of Strategic Business Development; and Andy Benson, VP, Director of Operations. This team has extensive business and environmental experience and is well supported by highly qualified and experienced managers.

Our People

The BluMetric team consists of approximately 170 experienced and motivated hydrogeologists, engineers, occupational and industrial hygienists, environmental auditors, environmental scientists, chemists, project managers, finance professionals, trades, and support personnel. They are experts in providing a comprehensive range of environmental services and engineered solutions, from contaminated site assessment and remediation to complete turn-key wastewater treatment systems.

Staffing levels fluctuate with the hiring of contract staff and students to meet project demands. The Company strives to recruit and retain highly skilled employees who can use their technical expertise to deliver creative solutions to complex environmental issues.

Diversity

BluMetric is committed to the principles of diversity. The Company strives to create and support an inclusive work environment that respects and values the contributions of all employees and their individual differences.

BluMetric's employees come from a wide range of cultural, ethnic, educational, and religious backgrounds. Additionally, women represent 50% of the workforce from welders and field technicians to the executive team and the Board of Directors. BluMetric's goal is to capitalize on the strength derived from diversity while affording its team members the greatest opportunity to excel, grow, and contribute to business and society.

Discussion Results of Operations for the Three Months Ended December 31, 2022

Financial Highlights

	Three months ended		Change \$	Change %
	December 31, 2022 \$	December 31, 2021 \$		
Revenue	10,478,025	7,816,254	2,661,771	34%
Gross profit	2,329,008	2,044,915	284,093	14%
Gross margin %	22%	26%		
Operating expenses	1,552,902	1,265,374	287,528	23%
Finance costs	21,459	32,650	(11,191)	(34%)
EBITDA ¹	919,851	912,410	7,441	1%
Earnings before income taxes	754,647	746,891	7,756	1%
Income tax recovery	298,836	194,690	104,146	53%
Net earnings	455,811	552,201	(96,390)	(17%)
Weighted average common shares outstanding - basic	29,435,695	29,064,173		
Earnings per share – basic	0.02	0.02		
Weighted average common shares outstanding - diluted	29,435,695	29,228,459		
Earnings per share – diluted	0.02	0.02		
Total assets	20,695,887	16,619,894		
Working capital	11,394,166	10,412,516		
Non-current liabilities	1,979,589	1,414,949		
Shareholders' equity	11,911,567	10,538,930		
Net cash (debt) ²	2,872,311	2,565,753		

Note 1: EBITDA is a non-IFRS measure and is calculated as net income before interest expense, income taxes, depreciation, and amortization. (See 'Financial Terms and Definitions').

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').

Revenue Breakdown by Market

	Three months ended December 31, 2022	Three months ended December 31, 2021	Change	Change
	\$	\$	\$	%
Commercial and Industrial	4,759,639	3,082,775	1,676,864	54%
Government	2,242,328	2,208,392	33,936	2%
Military	1,228,534	1,147,016	81,518	7%
Mining	2,247,524	1,378,071	869,453	63%
	10,478,025	7,816,254		

Q1 2023 compared to Q1 2022

- Revenue for the three months ended December 31, 2022 was \$10.5 million compared to \$7.8 million for the three months ended December 31, 2021.
- Revenue from the Government and Military markets for the quarter were relatively consistent with the prior year quarter.
- Revenue from the Commercial market increased by approximately \$1.7 million, mainly as a result of a large remediation project which accounted for \$1.4 million in revenue for the quarter compared to Q1 2022.
- Revenue from the Mining market increased mainly due to greater customer diversification, as business development efforts in market are coming to fruition.
- Gross profit was \$2.3 million and gross margin was 22% for Q1 2023 compared to \$2.0 million and 26% for Q1 2022. The decrease in gross margin is mainly due to larger field programs and larger requirements for materials in projects in Q1 2023 compared to Q1 2022. In addition, there has been an increase in material and labour costs post pandemic.
- Operating costs increased by approximately \$300,000 to \$1.6 million compared to \$1.3 million in the prior year period. The increase is mainly due to increases in technology costs related to software licensing and consulting services, legal costs for contract reviews and stock compensation expense.
- Finance costs were \$21,459 for the quarter ended December 31, 2022, compared to \$32,650 reported in Q1 2022.
- Net earnings for Q1 2023 were \$455,811 compared to \$552,201 for Q1 2022.

Management's Discussion and Analysis
Financial Quarters Ended December 31, 2022 and
December 31, 2021

EBITDA (see "Financial Terms and Definitions")

	Three Months Ended	
	December 31,	December 31,
	2022	2021
	\$	\$
Net income	455,811	552,201
Finance costs	21,459	32,650
Income tax expense	298,836	194,690
Depreciation and amortization	143,745	132,869
EBITDA	919,851	912,410

The Company recorded EBITDA of \$919,851 for the quarter ended December 31, 2022, compared with \$912,410 for the quarter ended December 31, 2021.

For more detail, see "Discussion of Results of Operations for the Three Months Ended December 31, 2022" and "Quarterly Results".

Quarterly Results

Quarterly financial information for the eight quarters ended December 31, 2022

(in 000's, except as otherwise indicated)

	Q1 2023 Dec 31, 2022 \$	Q4 2022 Sept 30, 2022 \$	Q3 2022 June 30, 2022 \$	Q2 2022 Mar 31, 2022 \$
Revenue	10,478	9,935	8,353	8,214
Cost of sales	8,149	8,178	6,395	6,412
Gross profit	2,329	1,757	1,958	1,802
Gross margin%	22%	18%	23%	22%
Operating expenses	1,553	1,602	1,514	1,454
Finance costs	21	13	29	24
Earnings before provision for income tax	755	142	415	324
Income tax expense (recovery)	299	(47)	98	60
Net earnings	456	189	317	264
Weighted average common shares outstanding - basic	29,435,695	29,365,996	29,406,464	29,395,695
Earnings per share – basic and diluted	0.02	0.01	0.01	0.01
	Q1 2022 Dec 31, 2021 \$	Q4 2021 Sept 30, 2021 \$	Q3 2021 June 30, 2021 \$	Q2 2021 Mar 31, 2021 \$
Revenue	7,816	9,699	8,488	9,139
Cost of sales	5,771	7,354	6,295	6,475
Gross profit	2,045	2,345	2,193	2,664
Gross margin%	26%	24%	26%	29%
Operating expenses	1,265	1,286	1,147	1,199
Finance costs	33	30	40	122
Earnings before provision for income tax	747	1,029	1,005	1,343
Income tax expense (recovery)	195	(257)	318	291
Net earnings	552	1,286	687	1,052
Weighted average common shares outstanding - basic	29,064,173	28,773,174	28,836,574	28,683,473
Earnings per share – basic and diluted	0.02	0.04	0.02	0.04

The Company experiences variability in its results of operations from quarter to quarter due to the nature of the markets and geographies in which it operates. Typically, in the second quarter, the Company experiences slowdowns related to winter weather conditions and holiday schedules. Activity in the fourth quarter generally increases because of projects in the North that run in the summer season. Additionally,

the Company has several discrete contracts that occur throughout the year and can significantly impact the results of any one quarter.

Below are some key highlights for fluctuations quarter over quarter. For information on the operating results please see the Discussion of Results of Operations in each MD&A for each respective quarter.

Highlights on quarter over quarter variances include:

1. Q1 2023 vs Q1 2022 – Q1 2023 includes a large project with \$1.4 million in revenue and lower than average margin. The Company continues to focus on expanding its mining portfolio and has recognized approximately \$500,000 in Q1 2023 from new customers in this market sector. Operating expenses have increased with increased activity.
2. Q4 2022 vs Q4 2021 – Margins in Q4 2022 were lower than margins in Q4 2021 as a result of project mix. Operating expenses have increased with increased activity.
3. Q3 2022 vs Q3 2021 – Q3 2022 includes higher operating expenses of approximately \$366,000 as a result of the Company resuming selling and marketing activities post-pandemic, as well as an increased focus on information technology and process improvements.
4. Q2 2022 vs Q2 2021 – Q2 2021 includes large projects related to COVID-19 for the provision of COVID cleaning supplies for schools in each community throughout Nunavut that did not repeat in Q2 2022. Additionally, Q2 2022 reflects a decrease in revenue from the Mining market as a result of two large projects which were completed by Q4 2021. The Company is focusing on business development opportunities in this market moving forward.

Summary of Cash Flows

	Three months ended	
	December 31, 2022 \$	December 31, 2021 \$
Cash provided by (used in)		
Operating activities, excluding changes to working capital balances	887,270	843,625
Changes related to working capital	(1,484,421)	(1,030,538)
Operating activities	(597,151)	(186,913)
Investing activities	-	(49,212)
Financing activities	(243,601)	(240,948)
Change in cash and cash equivalents	(840,752)	(477,073)
Cash and cash equivalents – Beginning of period	4,911,423	4,727,420
Cash and cash equivalents – End of period	4,070,671	4,250,347
Free cash flow ¹	766,719	682,940

Note 1: Free cash flow is a non-IFRS measure and is calculated as cash flow from operating activities excluding changes in working capital balances less net capital expenditures and net payment of lease obligations (see 'Financial Terms and Definitions').

Cash used from operating activities was approximately \$597,151 during the quarter ended December 31, 2022, compared with cash used from operating activities of \$186,913 in Q1 2022. The decrease in cash from operating activities is mainly from vendor payments for purchases of materials in Q4 2022 and Q1 2023. Unbilled revenue also increased due to the timing of invoicing customers.

There were no investing activities in three months ended December 31, 2022 compared to cash consumed by investing activities of \$49,212 in the same period for 2022.

In Q1 2023, cash used in financing activities was \$243,601 compared to cash used in financing activities of \$240,948 in the same period of 2022.

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 1.25% (2022 - 2.25%), is collateralized by a first ranking general security agreement over all of the Company's present and future assets and has no contractual maturity.

For the period ended December 31, 2022, the effective interest rate under this facility was 7.28% (2022 – 6.7%). As at December 31, 2022, the Company had drawn \$nil on its operating facility and \$nil in letters of credit (December 31, 2021 – \$nil and \$nil, respectively).

On April 20, 2021, the Company entered into a letter of agreement with its bank for a new \$2.0 million term loan. 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. It matures April 30, 2025, is carried at amortized cost and is subject to the same covenants as the Company's short term credit facilities.

As at December 31, 2022, the Company had approximately \$6.8 million in availability between its operating line and cash balances and was in compliance with all its covenants.

Business Outlook

The following comments include forward-looking information and users are cautioned that actual results may vary.

BluMetric is focused on making key investments in its Cleantech water treatment products and in its personnel to support growth and market expansion. The Company is planning to invest in leadership in the Commercial and Industrial market and staff expansion of our fabrication facility, to take advantage of emerging opportunities. Furthermore, BluMetric will continue to build on a strong 2022 servicing clients in Canada's North, as well as its other government clients. In addition, the Company is considering acquisition opportunities to accelerate growth.

BluMetric believes that the following factors have and will continue to position BluMetric for growth:

- The Company's diversified service offerings and market sectors;
- Realizing the robust interest in our newly developed agile water treatment systems for Cleantech;
- Capitalize on our newly expanded Cleantech fabrication facility;
- Expanded presence in Quebec, with a market focus on Mining;
- Geographic expansion of our Cleantech products;
- Strong balance sheet, as seen from the Company's increasing net cash position;
- Business processes implemented since the beginning of the pandemic which allow the Company to agilely manage its discretionary and non-discretionary costs in response to changing conditions; and
- Increased liquidity, if needed, from a higher borrowing limit on its operating credit line as a result of renegotiating its credit facility agreement and moving from a limit of \$2.0 million for overdraft and \$500,000 for letters of credit to a \$2.5 million shared limit between overdraft and letters of credit.

Business Risks

The Company is subject to risks and uncertainties in the normal course of business that could materially affect the financial condition of the Company. These risks and uncertainties include, but may not be limited to, the following:

- Macroeconomic risk of recession in key markets or the economy as a whole;
- Reliance on key clients;
- Ability to attract and retain key personnel;
- Liquidity risk with respect to clients, and their ability to pay and pay on time;
- Competition from companies which are better-financed or have disruptive technologies;
- Potential claims and litigations; and
- Cybersecurity threats.

Capital Resources

The Company's future growth strategy contemplates investment in various technologies and processes requiring capital for prototyping purposes. Accordingly, the Company may opportunistically approach capital markets for additional equity funding if conditions are favourable.

Critical Accounting Estimates and Judgements

The reader is referred to the detailed discussion on critical accounting estimates and judgements found in Note 2 of the Company's audited financial statements and related notes for the year ended September 30, 2022.

Off-Balance Sheet Arrangements

For contractual commitments not recognized on the Statement of Financial Position, the reader is referred to Note 17 of the Company's audited financial statements for the year ended September 30, 2022.

Transactions with Related Parties

All related-party transactions are conducted under terms and conditions reflecting prevailing market conditions at the transaction date and are recorded at the amounts agreed upon by the parties.

Key management personnel of the Company are members of the Board of Directors, the Chief Executive Officer, the Chief Financial Officer and members of the executive team.

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

	Three Months Ended	
	December 31, 2022 \$	December 31, 2021 \$
Salaries	343,217	239,250
Short-term benefits	24,892	23,921
Share-based compensation	46,233	4,699
	414,342	267,870

Proposed Transactions and Subsequent Events

There are no proposed transactions or subsequent events for year ended December 31, 2022.

Summary of Outstanding Shares and Dilutive Instruments

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

Shares:	29,435,695 common shares
Options:	2,757,000 options

Inter-Corporate Relationships

There are no inter-corporate relationships for the year ended December 31, 2022.

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 cash flow from operating activities excluding changes in working capital balances less net 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 unaudited financial statements of BluMetric Environmental Inc. and all the information in this Management Discussion and Analysis have been prepared by management, which is solely responsible for the integrity and fairness of the data presented, including the many amounts, which due to necessity, are based on estimates and judgments. The accounting policies followed in the preparation of these 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 and at www.sedar.com.