BluMetric Environmental Inc.

Condensed Interim Financial Statements
For the Six Months Ended
March 31, 2020
(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 Interim Statements of Financial Position

As at March 31, 2020

(expressed in Canadian dollars)
(unaudited)

	March 31, 2020 $	September 30, 2019 $
Current assets		
Cash	-	243,098
Accounts receivable (note 5)	4,787,466	3,839,265
Unbilled revenue	1,600,149	2,666,608
Contract assets	963,327	1,383,409
Prepaid expenses	289,150	196,684
	7,640,092	8,329,064
Assets held for sale (note 8)	-	131,510
Non-current assets		
Property, plant and equipment	131,452	190,058
Intangible assets	46,551	50,926
Right of use assets (notes 4, 12)	1,067,600	-
Goodwill (note 11)	-	1,592,095
Deferred income tax assets	2,190,172	2,159,329
	3,435,775	3,992,408
	11,075,867	12,452,982
Current liabilities		
Bank indebtedness (note 6)	669,790	-
Trade and other payables (note 7)	2,246,450	2,995,982
Contract liabilities	160,104	140,383
Demand loan (note 9)	-	901,052
Current portion of lease liabilities (notes 4, 12)	417,525	-
Current portion of long-term debt (note 10)	2,509,391	64,797
	6,003,260	4,102,214
Non-current liabilities		
Long-term debt (note 10)	165,579	2,695,167
Lease liabilities (notes 4, 12)	667,582	-
Advances	50,000	50,000
Due to shareholders	16,638	16,638
	899,799	2,761,805
	6,903,059	6,864,019
Shareholders' Equity		
Share capital (note 13)	5,526,964	5,526,964
Contributed surplus and other equity	695,523	687,737
Accumulated deficit	(2,049,679)	(625,738)
	4,172,808	5,588,963
	11,075,867	12,452,982

Approved by the Board of Directors

"Jane Pagel" Director — "Geoff Simonett" Director

Jane Pagel — Geoff Simonett

BluMetric Environmental Inc.

Condensed Interim Statements of Changes in Shareholders' Equity

For the six months ended March 31, 2020 and 2019

(expressed in Canadian dollars)
(unaudited)

	Common shares #	Share capital $	Contributed surplus and other equity $	Retained earnings (deficit) $	Total $
Balance – October 1, 2018	28,675,695	5,526,964	644,288	(933,517)	5,237,735
Impact of change in accounting policy (adoption of IFRS 9)	-	-	-	(43,139)	(43,139)
October 1, 2018 – As restated	28,675,695	5,526,964	644,288	(976,656)	5,194,596
Share-based compensation (note 13)	-	-	27,059	-	27,059
Net earnings and comprehensive income for the period	-	-	-	301,703	301,703
Balance – March 31, 2019	28,675,695	5,526,964	671,347	(674,953)	5,523,358
Balance – October 1, 2019	28,675,695	5,526,964	687,737	(625,738)	5,588,963
Share-based compensation (note 13)	-	-	7,786	-	7,786
Net loss and comprehensive loss for the period	-	-	-	(1,423,941)	(1,423,941)
Balance – March 31, 2020	28,675,695	5,526,964	695,523	(2,049,679)	4,172,808

BluMetric Environmental Inc.

Condensed Interim Statements of Net Earnings and Comprehensive Income

For the six months ended March 31, 2020 and 2019

(expressed in Canadian dollars)
(unaudited)

	For the three months ended		For the six months ended	
	March 31, 2020 $	**March 31, 2019 $**	**March 31, 2020 $**	**March 31, 2019 $**
Revenue (note 16,17)	5,028,246	6,989,669	11,343,820	14,590,877
Cost of sales (note 14)	4,538,515	5,508,246	9,422,921	11,448,380
Gross profit	489,731	1,481,423	1,920,899	3,142,497
Operating expenses and other items				
Selling, general and administrative (note 14)	1,307,648	1,196,821	2,462,521	2,455,714
Gain on disposal of assets held for sale (note 8)	-	-	(947,914)	-
Impairment of goodwill (note 11)	1,592,095	-	1,592,095	-
Total operating expenses	2,899,743	1,196,821	3,106,702	2,455,714
Operating (loss) profit	(2,410,012)	284,602	(1,185,803)	686,783
Finance costs (note 14)	(114,996)	(122,272)	(268,981)	(257,526)
Earnings (loss) before income taxes	(2,525,008)	162,330	(1,454,784)	429,257
Income tax (recovery) expense	(256,620)	49,959	(30,843)	127,554
Net (loss) earnings and comprehensive (loss) income for the period	(2,268,388)	112,371	(1,423,941)	301,703
Earnings per share				
Basic	(0.08)	0.00	(0.05)	0.01
Diluted	(0.08)	0.00	(0.05)	0.01
Weighted average number of shares outstanding (note 15)				
Basic	28,675,695	28,675,695	28,675,695	28,675,695
Diluted	28,691,865	28,675,695	28,692,192	28,675,695

BluMetric Environmental Inc.
Condensed Interim Statement of Cash Flows
For the six months ended March 31, 2020 and 2019

(expressed in Canadian dollars)
(unaudited)

	For the three months ended		For the six months ended	
	March 31, 2020 $	March 31, 2019 $	March 31, 2020 $	March 31, 2019 $
Cash provided by (used in)				
Operating activities				
Net (loss) earnings and comprehensive (loss) income for the period	(2,268,388)	112,371	(1,423,941)	301,703
Non-cash items				
Deferred income tax (recovery) expense	(256,620)	49,959	(30,843)	127,554
Credit loss allowance	142,791	20,524	165,173	18,308
Depreciation of property, plant and equipment	15,127	25,498	24,275	51,011
Amortization of intangible assets	2,188	748	4,376	1,838
Depreciation of right of use assets (note 12)	100,760	-	197,890	-
Gain on disposal of assets held for sale (note 8)	-	-	(947,914)	-
Amortization of deferred financing costs	2,790	3,113	5,579	6,226
Financing fees on debt repayment (note 9)	-	-	23,948	-
Share-based compensation (note 13)	2,925	12,661	7,786	27,059
Impairment of goodwill (note 11)	1,592,095	-	1,592,095	-
Changes in working capital balances	1,098,458	(89,955)	(442,762)	768,638
	432,126	134,919	(824,338)	1,302,337
Investing activities				
Acquisition of property, plant and equipment	-	-	(28,000)	(10,857)
Proceeds on disposal of other assets held for sale, net of transaction costs (note 8)	-	-	1,079,424	-
	-	-	1,051,424	(10,857)
Financing activities				
Increase (decrease) in bank indebtedness	(325,509)	(114,185)	669,790	(1,249,892)
Repayment of demand loan (note 9)	-	(12,500)	(925,000)	(25,000)
Repayment of long-term debt	(13,525)	(6,955)	(27,050)	(13,911)
Principal payments on leases under IFRS 16 (note 12)	(93,092)	-	(187,924)	-
Principal payments on finance leases (under IAS 17)	-	(1,279)	-	(2,677)
	(432,126)	(134,919)	(470,184)	(1,291,480)
Change in cash and cash equivalents during the period	-	-	(243,098)	-
Cash and cash equivalents – Beginning of period	-	-	243,098	-
Cash and cash equivalents – End of period	-	-	-	-

(expressed in Canadian dollars)
(unaudited)

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 clients 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 3108 Carp Road, Ottawa, Ontario, Canada K0A 1L0. 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, 2019, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Authorization of financial statements

The condensed interim financial statements were approved and authorized for issue by the Board of Directors on July 15, 2020.

Presentation and functional currency

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

Basis of measurement

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

3 Summary of significant accounting policies, judgements and estimation uncertainty

With the exception of the expanded disclosure below on significant accounting judgements and estimation uncertainty, and the adoption of the new standard set out in Note 4 below, 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 interim financial statements. As such, these condensed interim financial statements should be read in conjunction with the annual financial statements and related note disclosures for the year ended September 30, 2019.

(expressed in Canadian dollars)
(unaudited)

Significant accounting judgements and estimation uncertainty

On March 11, 2020, the World Health Organization declared 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 which has impacted the Company's operations and has led to significant volatility in local and global markets. Impacts from the response have been suspension of some of the Company's projects, either by its clients or due to a broader government directive, such as non-essential business closures, disruption to the progress of projects due to the need to modify work practices to meet health and safety standards, including travel restrictions, or by other COVID-19 related impacts. Certain projects that were expected to be available to the Company to bid on to secure new revenue have been delayed or postponed.

As an emerging risk, the duration and full financial effect of the COVID-19 pandemic is unknown at this time, as is the efficacy of the government and central bank interventions, the Company's business continuity plan and other mitigating measures. Any estimate of the length and severity of these developments is therefore subject to significant uncertainty, and accordingly estimates of the extent to which the COVID-19 pandemic may materially and adversely affect the Company's operations, financial results and condition in future periods are also subject to significant uncertainty.

Therefore, uncertainty about judgments, estimates and assumptions made by management during the preparation of the Company's interim financial statements related to potential impacts of the COVID-19 outbreak on revenue, expenses, assets, liabilities, and note disclosures could result in a material adjustment to the carrying value of the asset or liability affected.

Significant adverse economic impacts of COVID-19 on the financial results, including significant decline in the Company's market capitalization, triggered an impairment assessment at March 31, 2020. The impairment exercise resulted in goodwill being fully written off (see note 11).

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 flow and liquidity, and will continue to assess impacts to the Company's operations and the reported value of assets and liabilities reported in these unaudited interim condensed financial statements.

4 New accounting standards

IFRS 16, Leases

This note explains the impact of the adoption of IFRS 16, Leases (IFRS 16) in the financial statements and discloses the new accounting policies that have been applied from October 1, 2019 below.

a) Initial adoption

As permitted under the transition provisions in IFRS 16, the Company has chosen not to restate comparative information and recognized the cumulative effect upon initial application of the standard in retained earnings as at October 1, 2019.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of

(expressed in Canadian dollars)
(unaudited)

October 1, 2019 for each asset class. The lessee's incremental borrowing rate applied to the lease liabilities on October 1, 2019 ranged from 2.99%-5.95%.

For leases previously classified as finance leases under IAS 17, the Company elected to apply the practical expedient whereby the Company is not required to reassess whether a contract is, or contains, a lease at the date of initial application. As such, the Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not previously identified as leases under IAS 17 and IFRIC 4 were not reassessed. For leases that were previously classified as finance leases under IAS 17, the Company recognized the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application.

The Company also adopted the recognition exemptions permitted for short-term leases (i.e. less than 12 months) and leases for which the underlying asset has a low value, as well as the following practical expedients permitted on initial adoption under the standard:

- Applying a single discount rate to a portfolio of leases with similar characteristics; and
- Using the Company's previous assessment of impairment under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, for onerous contracts instead of re-assessing the right-of-use asset for impairment on October 1, 2019. There were no onerous lease contracts requiring an adjustment to right-of-use asset at the date of initial application.

The associated right-of-use assets for property leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position as at September 30, 2019.

The following table reconciles the impact of IFRS 16 on the previously reported statement of financial position as at September 30, 2019:

			October 1, 2019
	As reported at September 30, 2019 $	**Impacts from adoption of IFRS 16 $**	**As adjusted at October 1, 2019 $**
Prepaid expenses	196,684	(17,813)	178,871
Property, plant and equipment	190,058	(62,331)	127,727
Right of use assets (note 12)	-	1,087,881	1,087,881
Total increase in assets		1,007,737	
Trade and other payables	2,995,982	(24,161)	2,971,821
Current lease liabilities (note 12)	-	417,657	417,657
Current portion of long-term debt	64,797	(12,544)	52,253
Long-term debt	2,695,167	(50,979)	2,644,188
Non-current lease liabilities (note 12)	-	677,764	677,764
Total increase in liabilities		1,007,737	

(expressed in Canadian dollars)
(unaudited)

Differences between lease liabilities noted above and the minimum lease payments disclosed in Note 22 of the Company's September 30, 2019, annual financial statements are mainly due to the following:

	October 1, 2019 $
Operating lease payments disclosed as at September 30, 2019	1,785,656
Adjustments relating to variable lease payments	(403,026)
Short-term leases exemption	(140,628)
Leases of low-value assets exemption	(123,287)
Undiscounted lease payments	1,118,715
Discount effect at October 1, 2019	(86,816)
Equipment finance leases as at Sept 30, 2019 (note 10)	63,522
Lease liabilities recognized at October 1, 2019	1,095,421
Comprised of:	
Current lease liabilities	417,657
Non-current lease liabilities	677,764
	1,095,421

b) Policy applicable from October 1, 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct. If the supplier has a substantive substitution right, then the asset is not identified;
- The Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Company has the right to direct the use of the asset. The Company has this right when it has the decision making rights that are most relevant to changing how and for what purpose the asset is used.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone price.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

(expressed in Canadian dollars)
(unaudited)

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability. Lease terms for right-of-use assets vary between two to eight years.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

To determine the incremental borrowing rate, the Company:

- uses recent third-party financing received by the Company as a starting point, where possible, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Company, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g. term and security.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

Variable lease payments are not included in the measurement of lease liabilities and are recorded as expense in the statement of earnings in the period in which the condition that triggers those payments occurs.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the statement of net earnings over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in the relevant index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases of property, plant and equipment that have a lease term of 12 months or less and leases of low-value assets (less than $5,000), such as some IT-equipment. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(expressed in Canadian dollars)
(unaudited)

5 Accounts receivable

	March 31 2020 $	September 30 2019 $
Trade receivables	5,011,727	4,048,067
Other receivables	483	31,938
Credit loss allowance	(224,744)	(240,740)
	4,787,466	3,839,265

As at March 31, 2020, there was $nil (September 30, 2019 – $25,327) owed from government agencies included in other receivables.

6 Credit facilities

The Company's short-term credit facilities consist of an operating demand loan in the amount of $2,000,000 and an additional $500,000 for the issuance of 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. Each letter of credit must be 100% guaranteed in favour of the bank through a separate program provided by the Export Development Corporation. For the period ended March 31, 2020, the effective interest rate under this facility was 4.70% (2019 – 5.95%).

As at March 31, 2020, the Company had drawn $669,790 on its operating demand loan and $nil in letters of credit (September 30, 2019 – $ 77,055 and $nil respectively).

The Company has certain covenants in accordance with its short-term credit facilities. As at March 31, 2020, the Company was in default of one of its covenants. Subsequent to March 31, 2020, the Company received a waiver from its lender for this default (see note 19 "Liquidity").

7 Trade and other payables

	March 31, 2020 $	September 30 2019 $
Trade payables	1,038,453	1,499,351
Salaries and benefits payable	698,458	617,306
Other accrued liabilities and payables	509,539	879,325
	2,246,450	2,995,982

As at March 31, 2020, there was $180,151 (September 30, 2019 – $9,286) owed to government agencies included in other accrued liabilities and payables.

(expressed in Canadian dollars)
(unaudited)

8 Assets held for sale

On October 1, 2019, the Company signed an agreement to sell its office building at 3108 Carp Road in Ottawa for gross proceeds of $1,150,000. The sale includes the land, building, leasehold improvements and paving with a combined carrying amount of $131,510. The transaction closed on December 19, 2019, resulting in a gain on disposal of $947,914.

9 Demand loan

	March 31 2020 $	September 30 2019 $
Demand loan, issued on March 28, 2018, net of deferred financing costs of $nil (September 30, 2019 – $23,948), bearing interest at prime rate (3.95% as at September 30, 2019) plus 2%, secured by land and building with a carrying value of $nil (September 30, 2019 – $131,510)	-	901,052

On December 19, 2019, the Company closed the sale of its office building at 3108 Carp Road in Ottawa (note 8). The sale included all assets used as security for the demand loan. The proceeds from the sale were used to extinguish the Company's demand loan. Unamortized deferred financing costs of $23,948 attributed to the demand loan were expensed to the statement of net earnings on the closing date.

10 Long-term debt

	March 31, 2020 $	September 30, 2019 $
Term loan, net of deferred financing costs of $16,736 (September 30, 2019 – $22,314), bearing interest at 10%, due in one instalment on September 12, 2021	2,483,264	2,477,686
Restructured trade debt	191,706	218,756
Finance leases (note 4)	-	63,522
	2,674,970	2,759,964
Less: Current portion	2,509,391	64,797
	165,579	2,695,167

The Company has certain covenants in respect of financial ratio maintenance in accordance with this term loan, as well as cross-default provisions with the Company's short-term credit facility arrangement. As at March 31, 2020, the Company was in compliance with all its covenants under the term loan agreement. However, the Company is in breach of one of its covenants under its short-term credit facilities (see note 6). As a result of this breach, and the cross-default provisions, the entire amount of the term loan has been included in the current portion of long-term debt. Subsequent to March 31, 2020, the Company has received a waiver from its term loan lender for the cross-default (see note 19 "Liquidity").

(expressed in Canadian dollars)
(unaudited)

11 Goodwill

Goodwill is tested for impairment annually or more frequently if events or circumstances indicate that the asset might be impaired in accordance with the policy described in note 3 of the Company's annual financial statements dated September 30, 2019. Goodwill is tested for impairment at the lowest cash-generating unit ("CGU") level that goodwill is monitored, which is the company level.

In the quarter ended March 31, 2020, indicators of impairment were identified which included a significant decline in the Company's market capitalization as traded on the TSX-V and a reduction to near-term internal operating forecasts due to economic uncertainty arising from the COVID-19 pandemic.

Consistent with testing undertaken for the year ended September 30, 2019, the Company assessed goodwill for impairment by comparing the carrying value of the CGU to the recoverable amount, which is determined based on fair value less cost of disposal, using an enterprise valuation technique.

Enterprise value is determined using the adjusted share price quoted on TSX-V and multiplying it by the number of shares outstanding, plus net debt and a control premium less estimated cost of disposal. The valuation technique falls within level 2 in the fair value hierarchy described in note 3 of the Company's annual financial statements dated September 30, 2019.

If the share price used in the fair value less costs of disposal model was 10% lower, and all other assumptions held constant, the recoverable amount would be reduced by $298,227 against goodwill.

If the control premium used in the fair value less cost of disposal calculation was 10% lower, and all other assumptions held constant, then the recoverable amount would be reduced by $229,406 against goodwill.

Based on management's impairment analysis, it was determined that the carrying amount of the CGU exceeded the recoverable amount and that the full carrying amount of goodwill was impaired. As such, the Company recorded an impairment charge of $1,592,095 in the quarter.

(expressed in Canadian dollars)
(unaudited)

12 Right of use assets and lease liabilities

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

				Right of use assets
	Offices $	Vehicles $	IT equipment $	Total $
October 1, 2019 - Adoption of IFRS 16 (note 4)	937,290	41,249	109,342	1,087,881
Additions	177,609	-	-	177,609
Depreciation	(175,924)	(6,280)	(15,686)	(197,890)
March 31, 2020	938,975	34,969	93,656	1,067,600

				Lease liabilities
	Offices $	Vehicles $	IT equipment $	Total $
October 1, 2019 - Adoption of IFRS 16 (note 4)	943,639	41,778	110,004	1,095,421
Additions	177,609	-	-	177,609
Cash interest paid	21,441	872	1,946	24,259
Gross payments	(188,217)	(6,805)	(17,160)	(212,182)
March 31, 2020	954,472	35,845	94,790	1,085,107
Less: Current portion				417,525
Non-current portion				667,582

At March 31, 2020, lease liabilities were discounted using the Company's incremental borrowing rate and had weighted-average rates ranging from 2.99%-5.95%.

Future undiscounted cash outflows for lease liabilities in effect as of October 1, 2019 are disclosed in note 4. During the three months ended March 31, 2020, two new leases were signed for locations in Kitchener, Ontario and Whitehorse, Yukon. Future undiscounted cash outflows for these new lease additions were $358,310 of which $156,565 is variable.

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.

(expressed in Canadian dollars)
(unaudited)

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. For the six months ended March 31, 2020, expenses recorded in the statement of net earnings for short term and low value leases amounted to $119,331 and $18,802 respectively (six months ended March 31, 2019 – $nil).

The Company makes variable payments under office leases that are not included in the measurement of lease liabilities. For the six months ended March 31, 2020, the Company expensed $76,387 in respect of such variable payments (six months ended March 31, 2019 – $nil).

13 Shareholders' equity

Share capital

Authorized

- Common shares

  The Company is authorized to issue an unlimited number of common shares. The holders of the Company's common shares are entitled to dividends as and when declared by the Board of Directors of the Company, to one vote per share at meetings of shareholders of the Company and, on liquidation, to receive such assets of the Company as are distributable to the holders of the common shares.

- Special shares

  The Company is authorized to issue an unlimited number of special shares, issuable in series. No special shares are currently outstanding.

Share-based compensation

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

On March 25, 2020, the Company granted options for 40,000 common shares to certain Board members in connection with the Company's Board compensation policy. These options vest over one year, expire after five years and are exercisable into common shares at a price of $0.08 per share.

During the six months ended March 31, 2020, the Company recognized $7,786 (six months ended March 31, 2019 – $27,059) in share-based compensation expense.

(expressed in Canadian dollars)
(unaudited)

14 Other expense items

	For the three months ended		For the six months ended	
	March 31, 2020 $	**March 31, 2019 $**	**March 31, 2020 $**	**March 31, 2019 $**
Personnel	3,449,830	3,368,766	6,374,994	6,579,546
Materials	1,415,522	2,620,957	3,710,693	5,813,804
Consulting	18,895	10,967	56,035	82,849
Sub-contractors	5,870	8,653	29,422	23,083
Depreciation and amortization	118,075	26,246	226,541	52,849
Other operating expense	837,971	669,478	1,487,757	1,351,963
	5,846,163	6,705,067	11,885,442	13,904,094
Reported as:				
Cost of sales	4,538,515	5,508,246	9,422,921	11,448,380
Selling, general and administrative	1,307,648	1,196,821	2,462,521	2,455,714
	5,846,163	6,705,067	11,885,442	13,904,094
Finance costs				
Restructured debt	4,310	4,659	8,357	8,970
Term loans and bank loans	82,765	104,294	206,101	211,814
Bank charges	8,778	7,884	17,229	22,423
Interest on leases (IFRS 16)	15,036	-	30,103	-
Other finance charges	4,107	5,435	7,191	14,319
	114,996	122,272	268,981	257,526

15 Earnings per share

	For the three months ended		For the six months ended	
	March 31, 2020 $	**March 31, 2019 $**	**March 31, 2020 $**	**March 31, 2019 $**
Issued common shares	28,675,695	28,675,695	28,675,695	28,675,695
Weighted average number of basic common shares	28,675,695	28,675,695	28,675,695	28,675,695
Effect of share options on issuance	16,170	-	16,497	-
Weighted average number of diluted common shares	28,691,865	28,675,695	28,692,192	28,675,695

(expressed in Canadian dollars)
(unaudited)

Options that were anti-dilutive are not included in the computation of diluted common shares. For the period ended March 31, 2020, 993,503were excluded from the calculation because they were anti-dilutive (March 31, 2019 – 1,722,875).

16 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 reportable segment due to the integration between technical disciplines required to serve its clients.

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 client location based on origin of purchase (i.e., country of domicile of contracting party) are as follows:

	For the three months ended		For the six months ended	
	March 31, 2020 $	March 31, 2019 $	March 31, 2020 $	March 31, 2019 $
Canada	4,957,778	6,939,296	11,273,352	14,378,369
Other countries	70,468	50,373	70,468	212,508
	5,028,246	6,989,669	11,343,820	14,590,877

For the six months ended March 31, 2020, approximately 38% (2019 – 53%) was derived from three clients, two of which account for over 10% of total revenue (2019 – no change).

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

(expressed in Canadian dollars)
(unaudited)

17 Revenue

Disaggregation of revenue

Revenue is disaggregated by client 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 month ended March 31, 2020 $		
	Fixed price $	Time and materials $	Total $
Commercial and industrial	680,558	1,175,969	1,856,527
Government	435,511	569,475	1,004,986
Military	228,427	993,826	1,222,253
Mining	215,283	729,197	944,480
	1,559,779	3,468,467	5,028,246

	For the three months ended March 31, 2019 $		
	Fixed price $	Time and materials $	Total $
Commercial and industrial	756,133	880,915	1,637,048
Government	1,735,246	164,033	1,899,279
Military	174,760	2,458,882	2,633,642
Mining	-	819,700	819,700
	2,666,139	4,323,530	6,989,669

	For the six months ended March 31, 2020 $		
	Fixed price $	Time and materials $	Total $
Commercial and industrial	1,424,551	2,937,145	4,361,696
Government	841,617	1,349,004	2,190,621
Military	504,836	1,917,431	2,422,267
Mining	398,582	1,970,654	2,369,236
	3,169,586	8,174,234	11,343,820

(expressed in Canadian dollars)
(unaudited)

	For the six months ended March 31, 2019 $		
	Fixed price $	Time and materials $	Total $
Commercial and industrial	912,267	2,930,477	3,842,744
Government	1,998,253	1,615,740	3,613,993
Military	670,881	4,295,621	4,966,502
Mining	351,069	1,816,569	2,167,638
	3,932,470	10,658,407	14,590,877

Revenue from the vast majority of the Company's contracts is recognized over time because of the continuous transfer of control to the customer.

18 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		For the six months ended	
	March 31, 2020 $	March 31, 2019 $	March 31, 2020 $	March 31, 2019 $
Salaries	245,344	252,108	500,318	503,171
Short-term benefits	25,421	37,144	52,510	58,073
Share-based compensation	2,925	12,661	7,786	27,059
	273,690	301,913	560,614	588,303

19 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 March 31, 2020, the Company was in breach of one covenant, the fixed charge coverage ratio, for its operating demand loan facility. Despite being in compliance with all covenants under the Company's term loan agreement, the term loan has cross-default provisions with the operating demand loan. Subsequent to March 31, 2020, the Company received waivers for the quarters ended March 31, 2020 and June 30, 2020 from both its bank for the breach and its term loan lender for the cross-default breach. However, since the waiver was received after March 31, 2020, the entire amount of the term loan has been reclassified and included in current liabilities as at March 31, 2020.

(expressed in Canadian dollars)
(unaudited)

Subsequent to March 31, 2020, the Company renegotiated the composition of the borrowing limit as well as the covenants for its operating demand loan facility.

With respect to the borrowing limit on the operating demand loan facility, the Company now has $2,500,000 available as a shared limit between its overdraft facility and letters of credit. Prior to the amendment, the Company had $2,000,000 on its facility and $500,000 for the issuance of letters of credit.

With respect to the covenants, the fixed charge coverage ratio covenant has been suspended for the quarters ended June 30, 2020 and September 30, 2020 and reinstated for the quarter ended December 31, 2020. While this covenant is suspended, the Company will be subject to a minimum 4-quarter trailing EBITDA covenant. In addition, there were changes made to the basis of calculation and requirement of another covenant.

There was no change in the cost of borrowing, collateral requirements or margining.

As at March 31, 2020, the Company's eligible accounts receivable exceeded the margining threshold for the operating demand loan and therefore the facility was fully available to the Company. There was approximately $670,000 drawn on the facility at quarter end and no letters of credit issued. With the new shared limit, this leaves approximately $1.8 million available to the Company.

The Company continues to pursue new revenue contracts, implement cost efficiency measures and is utilizing various Government programs to manage its wage costs.