

BluMetric Environmental Inc.

Condensed Interim Financial Statements

For the Three Months Ended

December 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 December 31, 2020 and September 30, 2020

(expressed in Canadian dollars)

	December 31, 2020 \$	September 30, 2020 \$
Current assets		
Cash	2,658,575	2,470,002
Accounts receivable (note 4)	5,341,520	4,788,286
Unbilled revenue	2,398,160	2,770,720
Contract assets	1,361,040	2,451,726
Prepaid expenses	269,196	147,679
	12,028,491	12,628,413
Non-current assets		
Property and equipment	196,795	168,477
Intangible assets	46,811	48,474
Right-of-use assets (note 6)	1,054,386	1,207,018
Deferred income tax assets	1,215,224	1,464,309
	2,513,216	2,888,278
	14,541,707	15,516,691
Current liabilities		
Trade and other payables (note 8)	3,503,073	5,293,289
Contract liabilities	560,189	228,825
Current portion of lease liabilities (note 6)	521,996	500,774
Current portion of long-term debt (note 9)	2,351,632	2,453,843
	6,936,890	8,476,731
Non-current liabilities		
Long-term debt (note 9)	164,656	164,656
Lease liabilities (note 6)	593,920	732,891
Advances	50,000	50,000
Due to shareholders	16,638	16,638
	825,214	964,185
	7,762,104	9,440,916
Shareholders' Equity		
Share capital	5,526,964	5,526,964
Contributed surplus and other equity	707,075	703,090
Retained earnings (deficit)	545,564	(154,279)
	6,779,603	6,075,775
	14,541,707	15,516,691

Approved by the Board of Directors

 "Jane Pagel" Director
 Jane Pagel

 "Geoff Simonett" Director
 Geoff Simonett

BluMetric Environmental Inc.
Condensed Interim Statements of Changes in Shareholders' Equity
For the three months ended December 31, 2020 and 2019

(expressed in Canadian dollars)

	Common shares #	Share capital \$	Contributed surplus and other equity \$	Retained earnings (deficit) \$	Total \$
Balance – October 1, 2019	28,675,695	5,526,964	687,737	(625,738)	5,588,963
Share-based compensation	-	-	4,861	-	4,861
Net earnings and comprehensive income for the period	-	-	-	844,447	844,447
Balance – December 31, 2019	28,675,695	5,526,964	692,598	218,709	6,438,271
Balance – October 1, 2020	28,675,695	5,526,964	703,090	(154,279)	6,075,775
Share-based compensation (note 10)	-	-	3,985	-	3,985
Net earnings and comprehensive income for the period	-	-	-	699,843	699,843
Balance – December 31, 2020	28,675,695	5,526,964	707,075	545,564	6,779,603

BluMetric Environmental Inc.

Condensed Interim Statements of Net Earnings and Comprehensive Income For the three months ended December 31, 2020 and 2019

(expressed in Canadian dollars)

	For the three months ended	
	December 31, 2020 \$	December 31, 2019 \$
Revenue (notes 13, 14)	8,152,189	6,315,574
Cost of sales (note 11)	5,932,621	4,884,406
Gross profit	2,219,568	1,431,168
Operating expenses and other items		
Selling, general and administrative (note 11)	1,151,100	1,154,873
Gain on disposal of assets held for sale (note 5)	-	(947,914)
	1,151,100	206,959
Operating profit	1,068,468	1,224,209
Finance costs (note 11)	(119,540)	(153,985)
Earnings before income taxes	948,928	1,070,224
Deferred income tax expense	249,085	225,777
Net earnings and comprehensive income for the period	699,843	844,447
Earnings per share		
Basic	0.02	0.03
Diluted	0.02	0.03
Weighted average number of shares outstanding (note 12)		
Basic	28,675,695	28,675,695
Diluted	28,696,799	28,675,695

BluMetric Environmental Inc.
Condensed Interim Statements of Cash Flows
For the three months ended December 31, 2020 and 2019

(expressed in Canadian dollars)

	For the three months ended	
	December 31, 2020	December 31, 2019
	\$	\$
Cash provided by (used in)		
Operating activities		
Net earnings and comprehensive income for the period	699,843	844,447
Non-cash items		
Deferred income tax expense	249,085	225,777
Increase in credit loss allowance	62,640	22,382
Depreciation of property and equipment	13,887	9,148
Amortization of intangible assets	2,547	2,188
Depreciation of right-of-use assets (note 6)	136,148	97,130
Gain on disposal of assets held for sale (note 5)	-	(947,914)
Amortization of deferred financing costs	2,789	2,789
Financing fees on debt repayment	-	23,948
Share-based compensation (note 10)	3,985	4,861
Change in working capital balances	(733,921)	(1,541,220)
	<u>437,003</u>	<u>(1,256,464)</u>
Investing activities		
Acquisition of property and equipment	(42,205)	(28,000)
Acquisition of intangible assets	(884)	-
Proceeds on disposal of assets held for sale, net of transaction costs of \$70,576 (note 5)	-	1,079,424
	<u>(43,089)</u>	<u>1,051,424</u>
Financing activities		
Decrease in bank indebtedness	-	995,299
Repayment of demand loan	-	(925,000)
Repayment of long-term debt	(105,000)	(13,525)
Principal payments on leases (note 6)	(100,341)	(94,832)
	<u>(205,341)</u>	<u>(38,058)</u>
Change in cash and cash equivalents during the period	188,573	(243,098)
Cash and cash equivalents – Beginning of period	<u>2,470,002</u>	<u>243,098</u>
Cash and cash equivalents – End of period	<u>2,658,575</u>	<u>-</u>
Supplementary information		
Interest paid	96,675	130,883

BluMetric Environmental Inc.

Notes to Condensed Interim Financial Statements

For the three months ended December 31, 2020 and 2019

(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, 2020, 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 February 25, 2021.

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.

BluMetric Environmental Inc.

Notes to Condensed Interim Financial Statements

For the three months ended December 31, 2020 and 2019

(expressed in Canadian dollars)

COVID-19

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. Government directives to mitigate impacts of the pandemic have affected the Company's operations and have led to significant volatility in local and global markets. The Company has been awarded some contracts specifically to assist customers with managing the impacts of COVID-19, while other projects have been negatively impacted as customers adjusted operations to comply with government directives.

Significant uncertainty continues regarding the length of time it will take for the economy to return to pre-COVID-19 levels as Canada faces the prospect of subsequent waves of COVID-19 infection and an in-progress vaccine roll-out. 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 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.

The impact of COVID-19 on key estimates and judgments made by the Company in preparing these financial statements due to the uncertainty posed by the pandemic are:

- Impairment of non-financial assets

The Company performed an impairment test as at December 31, 2020 in accordance with its accounting policy. No indicators of impairment were identified and the Company expects its non-financial assets to be fully recoverable.

- Impact on the collectibility of financial assets

The Company's expected credit loss (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 collectibility of the Company's financial assets could differ materially from actual results.

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 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, 2020.

BluMetric Environmental Inc.
Notes to Condensed Interim Financial Statements
For the three months ended December 31, 2020 and 2019

(expressed in Canadian dollars)

4 Accounts receivable

	December 31, 2020 \$	September 30, 2020 \$
Trade and other receivables	5,798,603	5,196,859
Credit loss allowance – accounts receivable	(457,083)	(408,573)
	5,341,520	4,788,286

5 Property and equipment

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 included the land, building, leasehold improvements and paving with a combined carrying amount of \$131,510 and net transaction costs of \$70,576. The transaction closed on December 19, 2019, resulting in a gain on disposal of \$947,914.

6 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, 2020	1,100,358	28,690	77,970	1,207,018
Disposals	-	(16,484)	-	(16,484)
Depreciation	(125,165)	(3,140)	(7,843)	(136,148)
Balance – December 31, 2020	975,193	9,066	70,127	1,054,386

BluMetric Environmental Inc.
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For the three months ended December 31, 2020 and 2019

(expressed in Canadian dollars)

Lease liabilities

	Offices \$	Vehicles \$	IT equipment \$	Total \$
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				521,996
Non-current portion				593,920

Lease liabilities are discounted using the Company's incremental borrowing rate for each lease. The weighted-average 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.

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.

	For the three months ended	
	December 31, 2020 \$	December 31, 2019 \$
Amounts recognized in selling, general and administrative		
Rent expense – variable lease payments	46,010	61,028
Expense related to short-term leases	49,966	58,144
Expense related to low-value assets	12,624	10,372
Income from subleases	(2,461)	(2,961)
	106,139	126,583

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(expressed in Canadian dollars)

	For the three months ended	
	December 31, 2020	December 31, 2019
	\$	\$
Amounts recognized in the statements of cash flow		
Cash payments for the interest portion of lease liabilities	17,465	9,832
Cash payments for leases not included in the measurement of lease liabilities	106,139	126,583
Cash outflow in operating activities	123,604	136,415
Cash payments for the principal portion of lease liabilities included in financing activities	100,341	94,832
Total cash flow for leases	223,945	231,247

7 Credit facilities

The Company has \$2,500,000 available as a shared limit between its overdraft facility and letters of credit. The facility carries a floating interest rate of 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 December 31, 2020, the effective interest rate under this facility was 4.70% (December 31, 2019 – 6.2%).

As at December 31, 2020, the Company had drawn \$nil on its operating demand loan and \$nil in letters of credit (2019 – \$ 995,299 and \$nil, respectively).

The Company has certain covenants in accordance with its short-term credit facilities. As at December 31, 2020, the Company was in compliance with all its covenants.

On December 17, 2020, the Company negotiated a change to its covenants that will suspend the fixed charge ratio to the quarter ended June 30, 2021. While this covenant is suspended, the Company will be subject to a minimum four quarter trailing EBITDA covenant.

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

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(expressed in Canadian dollars)

8 Trade and other payables

	December 31, 2020	September 30, 2020
	\$	\$
Trade payables	1,902,772	3,532,562
Salaries and benefits payable	712,476	827,675
Other accrued liabilities and payables	887,825	933,052
	<u>3,503,073</u>	<u>5,293,289</u>

9 Long-term debt

	December 31, 2020	September 30, 2020
	\$	\$
Term loan, net of deferred financing costs of \$8,368 (September 30, 2020 – \$11,157), bearing interest at 10%	2,351,632	2,453,843
Restructured trade debt	164,656	164,656
	<u>2,516,288</u>	<u>2,618,499</u>
Less: Current portion	<u>2,351,632</u>	<u>2,453,843</u>
	<u>164,656</u>	<u>164,656</u>

The five-year term loan is scheduled to mature on August 15, 2021 and has been included in the current portion of long-term debt. The Company is in negotiations with potential lenders to refinance its term loan in advance of the maturity date (see note 16).

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 December 31, 2020, the Company was in compliance with all its covenants.

10 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

BluMetric Environmental Inc.
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(expressed in Canadian dollars)

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.

During the period ended December 31, 2020, the Company recognized \$3,985 (2019 – \$4,861) in share-based compensation expense.

11 Other expense items

	<u>For the three months ended</u>	
	December 31, 2020	December 31, 2019
	\$	\$
Personnel	3,379,148	2,925,163
Materials	2,945,742	2,295,171
Consulting	6,359	14,760
Sub-contractors	24,666	23,552
Depreciation and amortization	152,582	108,466
Other operating expense	575,224	672,167
	<u>7,083,721</u>	<u>6,039,279</u>
Reported as:		
Cost of sales	5,932,621	4,884,406
Selling, general and administrative	1,151,100	1,154,873
	<u>7,083,721</u>	<u>6,039,279</u>
Finance costs		
Interest on restructured debt	3,675	4,047
Interest on term loan and bank loans	91,915	123,336
Interest on leases	16,738	15,067
Bank charges	3,675	8,450
Other finance charges	3,537	3,085
	<u>119,540</u>	<u>153,985</u>

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Notes to Condensed Interim Financial Statements
For the three months ended December 31, 2020 and 2019

(expressed in Canadian dollars)

12 Earnings per share

	December 31, 2020 \$	December 31, 2019 \$
Issued common shares	28,675,695	28,675,695
Weighted average number of basic common shares	28,675,695	28,675,695
Effect of share options on issuance	21,104	-
Weighted average number of diluted common shares	28,696,799	28,675,695

Options that were anti-dilutive are not included in the computation of diluted common shares. For the period ended December 31, 2020, 748,896 were excluded from the calculation because they were anti-dilutive (2019 – 1,030,000).

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

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:

	For the three months ended	
	December 31, 2020 \$	December 31, 2019 \$
Canada	8,108,599	6,315,574
Other countries	43,590	-
	8,152,189	6,315,574

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Notes to Condensed Interim Financial Statements
For the three months ended December 31, 2020 and 2019

(expressed in Canadian dollars)

For the three months ended December 31, 2020, approximately 41% of revenue (2019 – 37%) was derived from three customers, all of which account for over 10% of total revenue (2019 – two of which account for over 10% of total revenue).

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

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, 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
	December 31, 2019		
	\$		
	Fixed price	Time and	Total
	\$	materials	\$
		\$	\$
Commercial and industrial	743,993	1,761,176	2,505,169
Government	406,106	779,529	1,185,635
Military	276,409	923,605	1,200,014
Mining	183,299	1,241,457	1,424,756
	1,609,807	4,705,767	6,315,574

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For the three months ended December 31, 2020 and 2019

(expressed in Canadian dollars)

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

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, 2020	December 31, 2019
	\$	\$
Salaries	200,431	200,157
Short-term benefits	25,374	27,089
Share-based compensation	3,986	4,861
	<u>229,791</u>	<u>232,107</u>

For the period ended December 31, 2020, amounts owing to related parties recorded in the statements of financial position were \$nil (2019– \$nil).

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.

For the period ended December 31, 2020, the Company had the following balances available on its credit facilities: operating demand loan – \$2,500,000; and credit card facility – \$126,025. With respect to margining for the operating demand loan, the Company's eligible accounts receivable exceeded the margining threshold and therefore the facility was fully available to the Company.

As at December 31, 2020, the Company had approximately \$5.2 million in availability between its operating line and cash balances.

The Company's five-year term loan (\$2.4 million as at December 31, 2020) matures on August 15, 2021. Based on the monthly repayment schedule, the balloon payment required on maturity will be \$2.1 million. The Company is in negotiations with potential lenders to refinance the term loan and has received a non-binding offer. The Company believes that it will be able to refinance this debt in advance of the August 15, 2021 maturity date or has sufficient cash resources to pay down the term loan in full on maturity, if deemed the best available use of company funds.