

Management Discussion & Analysis

**Financial Quarters Ended
March 31, 2020 and
March 31, 2019**
(expressed in Canadian Dollars)



July 15, 2020

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This Management Discussion and Analysis "MD&A" explains the material changes in BluMetric's financial condition and results of operations for the three and six months ended March 31, 2020. The MD&A should be read in conjunction with the Company's financial statements and related notes for the three and six months ended March 31, 2020 as well as the MD&A and audited financial statements and notes for the year ended September 30, 2019. 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", "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 IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. These measures are identified and described under the section "Financial Terms and Definitions".

Business Update – COVID – 19 Pandemic

On March 11, 2020, the World Health Organization declared the novel coronavirus (“COVID-19”) a global pandemic, prompting governments in the jurisdictions in which BluMetric Environmental Inc. (“BluMetric” or the “Company”) operates to declare a state of emergency in response. This has impacted the Company’s operations and has led to significant volatility in local and global markets.

As details of COVID-19 emerged, the Company developed and implemented a Pandemic Response Plan, led by its Industrial Hygiene/Health and Safety service line. The Plan established health and safety processes designed to meet or exceed guidance from applicable government health authorities with the intent of protecting the safety of BluMetric’s employees and their families as well as that of the Company’s clients and the communities in which it operates.

Specifics of the Pandemic Response Plan include onsite screening, increased hygiene and disinfection practices, physical distancing and provision of personal protective equipment where appropriate. In addition to ensuring the health and safety of its employees, these measures allow BluMetric to focus on client service and mitigate impacts related to COVID-19.

The majority of BluMetric’s workforce began working from home in March 2020. Recent investments in information technology systems have resulted in a quick and efficient transition to remote working while supporting continued collaboration and teamwork.

Some of BluMetric’s work has been deemed essential by local governments. Certain components of the business, like the Company’s Military market and its Industrial Hygiene/Health and Safety service line, have not been materially impacted by the pandemic. Other areas, such as projects in Canada’s North, have seen significant slowdowns or cancellations due to travel restrictions.

Impacts of COVID-19 on the Company include increased risk that certain projects will not continue, modifications to how client work is completed, Government directives with respect to non-essential business closures and extensive travel restrictions. These factors are expected to increase costs for a number of existing projects.

The Company continues to pursue new revenue contracts. The Company has also taken proactive measures to manage the costs of the Company. The executive leadership team has taken voluntary reductions in compensation and the Company is utilizing various Government programs to manage its wage costs while the economy stabilizes. The Company’s Board of Directors have also voluntarily reduced their quarterly fees. In addition, discretionary spending has been significantly reduced and the Company is reviewing all its costs to maximize efficiencies.

BluMetric will continue to monitor and actively manage the impacts from COVID-19 on its projects and operations.

Business Overview and Strategy

BluMetric Environmental Inc. ("BluMetric" or the "Company"), a Canadian company, provides cost-effective and sustainable solutions to help its clients overcome even the most difficult environmental and business challenges. Through a track record that spans 40 years, the Company has evolved into a full-service integrator of environmental solutions known for cutting edge work in the fields of water/wastewater treatment and professional environmental services.

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

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

BluMetric's comprehensive, affordable offerings are tailored to the specific needs of not only each industry, but also each client. With innovation, agility and client-responsive service as its hallmarks, the Company builds partnerships with its customers by delivering a long-term, holistic approach to managing their complete environmental needs, and health and safety responsibilities. It is this high degree of service that differentiates BluMetric from competitors who simply provide a one size fits all product or service.

BluMetric lays claim to a standout talent pool of approximately 150 dedicated and passionate employees whose collective expertise uniquely equips the Company to undertake environmental projects of any size, in any industry. BluMetric's elite team and 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

In February 2020, the Company opened a new office in Whitehorse, Yukon, bringing the total number of offices to ten. The expansion into the Yukon will ensure a stronger local presence while the Company works to secure future work in this region – a key area of growth.

BluMetric focuses its efforts primarily in North America. The Company is proud to be a trusted provider of services to many of Canada's northern Indigenous communities, working side by side to make the environment a cleaner and safer place. #

Technology and Innovation

With technical and service offerings that set BluMetric apart, technology and innovation are critical to the Company's ongoing success and competitive positioning. Innovation is driven by client demands as they face more stringent environmental regulations. Finding a solution for a specific problem is the creative process that differentiates BluMetric from its competitors.

An innovative solution must be scientifically and economically viable. All potential new services, products, or technologies go through a stage gate process to confirm the technology's proper function and that the potential market is of sufficient size to provide a return on investment.

BluMetric is proud to lay claim to several patented, flagship technologies, which it incorporates into a variety of core offerings:

Ammonia Removal – Ammonia is recognized as a significant nutrient contaminant responsible for the degradation of water quality. Government and public pressure has not abated and will continue to be the motive force behind the implementation of stricter effluent limits for the mining, landfill, and industrial markets. BluMetric's patented ammonia removal process, MARS, has been used in several full-scale treatment systems in the mining and landfill sectors and has become an integral part in most of the proposals generated for these markets. This membrane-based process reduces ammonia by isolation and direct adsorption. Environmental compliance, reduced capital costs and reduced operational costs are the main advantages of the MARS process.

Cyanide – In late 2016 mining regulators changed the cyanide limits for the effluent exiting the tailings ponds and mining facilities. In close association with the Company's technology partners the pilot testing program was refined and continues in 2020.

Emerging Contaminants – 1-4 Dioxane, poly fluorinated compounds (PFC), cobalt, selenium, arsenic, and antimony have emerged as contaminants of concern in the mining, landfill, and military markets. BluMetric, in conjunction with its technology partners, has developed processes to accomplish the following:

- Biologically destroy 1-4 Dioxane.
- Physically isolate and remove PFCs from wastewater, leachate, and groundwater.
- Physically and chemically remove emerging problematic metals from mining, leachate, and industrial wastewater.

As a world-class leader in environmental contaminant removal, the Company is also highly committed to ongoing research and development. As an example, the reduction or treatment of emerging contaminants, such as PFCs as well as the reduction of total dissolved solids (TDS), especially chloride, continues to be evaluated by the stage gate process and represents an area of focus for 2020 and beyond. Creating cost effective water solutions for governments and private industry opens up lucrative new revenue opportunities for BluMetric, and as such it will continue to invest in this innovative water treatment technology—which facilitates the production of clean water in remote settings—in response to the interest and demand identified in the mining sector and First Nations communities in particular.

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:

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

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.

Environmental concerns are evaluated to determine if they are client specific or market driven. This evaluation helps select the appropriate course of action, identifies trends and allows BluMetric to be more pro-active to the future demands of the market.

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 of Directors 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 finance, operations, management, and governance.

Executive Management

The Senior Management team comprises: Scott MacFabe, Chief Executive Officer; Vivian Karaiskos, Chief Financial Officer; Tim Beckenham, Senior Director, Operations; and Wayne Ingham, Director, Strategic Business Development.

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 140 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 seasonally with the hiring of contract staff and students to meet peak demand periods. The Company strives to recruit and retain highly skilled employees who are able to use their technical expertise to deliver creative solutions to complex environmental issues.

Diversity

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

BluMetric's employees come from a wide range of cultural, ethnic, educational and religious backgrounds. Additionally, women represent 47% of the workforce from welders and field service technicians to the senior members of the executive team and Board of Directors. To that end, 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.

IFRS 16 Leases

Effective October 1, 2019, BluMetric adopted IFRS 16 Leases (IFRS 16) using the modified retrospective approach and did not restate comparative information. The new standard replaces IAS 17 Leases, and IFRIC 4 Determining Whether an Arrangement Contains a Lease (IFRIC 4) and requires companies to bring operating leases, formerly treated as off-balance sheet items, onto a company's statement of financial position.

On the statement of financial position, certain current and non-current items were reclassified to conform to the accounting requirements of IFRS 16.

The key impact of implementation on the statement of earnings is that instead of including fixed lease payments in operating expenses, these payments are reflected as depreciation of right-of-use (leased) assets and interest expense using the effective interest method for lease liabilities. This also impacts the Company's EBITDA and Adjusted EBITDA calculation (see "EBITDA and Adjusted EBITDA" section below).

On the statement of cash flows, fixed lease payments are no longer included in operating and investing activities, respectively, and are now recognized in financing activities. This reclassification increases cash flows from operating activities and reduces cash flows from investing and financing activities, resulting in a net zero effect on total cash flows.

Goodwill Impairment

Goodwill is tested for impairment annually or more frequently if events or circumstances indicate that the asset might be impaired.

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.

Based on management's impairment analysis, it was determined that the full carrying amount of goodwill was impaired. As such, the Company recorded a non-cash impairment charge of \$1.6 million in the quarter.

Results of Operations

| | Three Months Ended | | Change \$ | Change % |
|--|------------------------|------------------------|--------------|-------------|
| | March 31 2020 \$ | March 31 2019 \$ | | |
| Revenue | 5,028,246 | 6,989,669 | (1,961,423) | -28% |
| Gross profit | 489,731 | 1,481,423 | (991,692) | -67% |
| Gross margin % | 10% | 21% | - | - |
| Operating expenses | 1,307,648 | 1,196,821 | 110,827 | 9% |
| Goodwill impairment | 1,592,095 | - | 1,592,095 | |
| EBITDA ¹ | (2,291,937) | 310,848 | (2,602,785) | -837% |
| EBITDA ¹ – Excluding IFRS 16 | (2,398,672) | 310,848 | (2,709,520) | -872% |
| Adjusted EBITDA ² | (699,842) | 310,848 | (1,010,690) | -325% |
| Adjusted EBITDA ² – Excluding IFRS 16 | (806,577) | 310,848 | (1,117,424) | -359% |
| (Loss) earnings before provision for income tax | (2,525,008) | 162,330 | (2,687,338) | -1655% |
| Income tax (recovery) expense | (256,620) | 49,959 | (306,579) | -614% |
| Net (loss) earnings | (2,268,388) | 112,371 | (2,380,759) | -2119% |
| Weighted average common shares outstanding | 28,675,695 | 28,675,695 | - | |
| (Loss) earnings per share – basic and diluted | (0.08) | 0.00 | (0.08) | |
| | | | | |
| | Six Months Ended | | Change \$ | Change % |
| | March 31 2020 \$ | March 31 2019 \$ | | |
| Revenue | 11,343,820 | 14,590,877 | (3,247,057) | -22% |
| Gross profit | 1,920,899 | 3,142,497 | (1,221,598) | -39% |
| Gross margin % | 17% | 22% | | |
| Operating expenses | 2,462,521 | 2,455,714 | 6,807 | 0% |
| Gain on disposal of assets held for sale | (947,914) | - | (947,914) | |
| Goodwill impairment | 1,592,095 | - | 1,592,095 | |
| EBITDA ¹ | (959,262) | 739,632 | (1,698,894) | -230% |
| EBITDA ¹ – Excluding IFRS 16 | (1,161,331) | 739,632 | (1,900,963) | -257% |
| Adjusted EBITDA ² | (315,081) | 739,632 | (1,054,713) | -143% |
| Adjusted EBITDA ² – Excluding IFRS 16 | (517,150) | 739,632 | (1,256,782) | -170% |
| (Loss) earnings before provision for income tax | (1,454,784) | 429,257 | (1,884,041) | -439% |
| Income tax (recovery) expense | (30,843) | 127,554 | (158,397) | -124% |
| Net (loss) earnings | (1,423,941) | 301,703 | (1,725,644) | -572% |
| Weighted average common shares outstanding | 28,675,695 | 28,675,695 | - | |
| (Loss) earnings per share – basic and diluted | (0.05) | 0.01 | (0.06) | |
| Total assets | 11,075,867 | 12,436,526 | | |
| Working capital | 1,636,832 | 4,419,905 | | |
| Non-current liabilities | 899,799 | 2,753,410 | | |
| Shareholders' equity | 4,172,808 | 5,523,358 | | |

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

Note 2: Adjusted EBITDA is a non-IFRS measure (see 'Financial Terms and Definitions') and is calculated as EBITDA before gain on disposal of assets held for sale and goodwill impairment

Discussion of Results of Operations

Revenue for the Q2 FY2020 was \$5.0 million, compared to \$7.0 million in Q2 FY2019. Year to date revenue was \$11.3 million compared to \$14.6 million.

The majority of the decrease relates to one-time Military contracts that contributed to revenue in Q1 and Q2 FY2019 but did not repeat in Q1 and Q2 FY2020. These include contracts for 90 Day Sustainment Kits for the Reverse Osmosis Water Purification Units (ROWPU) for the Canadian Armed Forces as well as upgrades. Additionally, there were a greater number of desalination (SROD) units produced and delivered in Q1 and Q2 FY2019 compared to Q1 and Q2 FY2020. This accounts for a \$1.4 million decrease in the quarter and a \$2.4 decrease year to date.

The remaining decline can be largely attributed to a decrease in projects in the federal and provincial markets of approximately \$900,000 for the quarter ended March 31, 2020 and \$1.4 million year to date. This was mainly as a result of the effects in Q1 FY2020 of having less government site investigation and remediation projects from the summer months when compared to Q1 FY2019, as well as one-time projects in Q2 FY2019, most notably an air quality and maintenance project in Nunavut, which did not repeat in Q2 FY2020.

The Company experienced a modest increase in its Commercial and Industrial sector of approximately \$250,000 for the quarter and \$450,000 year to date, which slightly offset the declines mentioned above.

Gross profit and gross margin for the financial quarter ended March 31, 2020 were \$490,000 and 10% respectively (March 31, 2019 - \$1.5 million and 21%). Year to date, gross profit and gross margin were \$1.9 million and 17%, compared to \$3.1 million and 22% year to date in FY 2019.

The decrease in gross margin is a result of the decline in revenue described above. Another contributing factor was that a greater proportion of time was invested on business development activities that have not yet translated into revenue due to both longer sales cycles as well as projects being put on hold due to the uncertainty of the COVID-19 pandemic. Additionally, there were various revenue adjustments required to account for the ambiguity of certain projects continuing given the economic uncertainty and government imposed restrictions on certain customers as a result of the pandemic.

Operating costs for the quarter ended March 31, 2020 increased to \$1.3 million from \$1.2 million for the same period in the prior year. The increase was primarily due to a higher provision for credit loss allowances. Operating costs stayed consistent at \$2.5 million for both the six months ended March 31, 2020 and the six months ended March 31, 2019.

The Company recorded a non-cash impairment of goodwill during the quarter ended March 31, 2020 of \$1.6 million due to a decline in market capitalization resulting from the economic impacts of COVID-19 (see "Goodwill Impairment"). The Company also recorded a gain on the sale of its office building at 3108 Carp Road of \$948,000 in Q1 2020.

Finance costs were \$115,000 and \$269,000 for the three and six months ended March 31, 2020 compared to \$122,000 and \$258,000 reported for the same periods a year earlier. The slight decrease was a result of the Company paying off its demand loan on December 19, 2019 when it sold its office building at 3108 Carp Road.

Net loss for the quarter ended March 31, 2020 was \$2.3 million compared to net earnings of \$112,000 for the quarter ended March 31, 2019. Year to date net loss for FY2020 was \$1.4 million compared to net earnings of \$302,000 for year to date FY2019. This decrease is attributable to lower revenue, lower gross profit and a non-cash impairment charge related to goodwill of \$1.6 million, offset by the gain on sale of the building.

EBITDA and Adjusted EBITDA (see “Financial Terms and Definitions”)

| | For three month ended | | | March 31, 2019 \$ |
|-------------------------------|-------------------------|----------------------------|-----------------------------|-------------------------|
| | March 31, 2020 \$ | Impact of IFRS-16 \$ | Excluding IFRS -16 \$ | |
| Net income | (2,268,388) | 3,483 | (2,264,905) | 112,371 |
| Finance costs | 114,996 | (14,193) | 100,803 | 122,272 |
| Income tax expense | (256,620) | 1,256 | (255,364) | 49,959 |
| Depreciation and amortization | 118,075 | (97,281) | 20,794 | 26,246 |
| EBITDA | (2,291,937) | (106,735) | (2,398,672) | 310,848 |
| Impairment of goodwill | 1,592,095 | - | 1,592,095 | - |
| Adjusted EBITDA | (699,842) | (106,735) | (806,577) | 310,848 |

| | March 31, 2020 | For six month ended | | March 31, 2019 |
|--|---------------------------|------------------------------|-------------------------------|---------------------------|
| | \$ | Impact of IFRS-16 | Excluding IFRS -16 | \$ |
| | | \$ | \$ | |
| Net income | (1,423,941) | 12,217 | (1,411,724) | 301,703 |
| Finance costs | 268,981 | (27,390) | 241,591 | 257,526 |
| Income tax expense | (30,843) | 4,093 | (26,750) | 127,554 |
| Depreciation and amortization | 226,541 | (190,989) | 35,552 | 52,849 |
| EBITDA | (959,262) | (202,069) | (1,161,331) | 739,632 |
| Gain on disposal of assets held for sale | (947,914) | - | (947,914) | - |
| Impairment of goodwill | 1,592,095 | - | 1,592,095 | - |
| Adjusted EBITDA | (315,081) | (202,069) | (517,150) | 739,632 |

The Company recorded EBITDA of negative \$(2.3) million and Adjusted EBITDA of negative \$(700,000) for the three months ended March 31, 2020.

Excluding the impact of IFRS 16, EBITDA would have been negative \$(2.4) million and Adjusted EBITDA would have been negative \$(807,000) for the three months ended March 31, 2020.

The decrease in EBITDA is mainly due to a \$1.6 million non-cash impairment charge on goodwill as well as a decline in revenue and gross profit. For more detail, see "Discussion of Results of Operations" and "Quarterly Results".

The decline in Adjusted EBITDA is mainly due to a decline in revenue and a corresponding decline in gross profit, as well as higher operating costs. For more detail, see "Discussion of Results of Operations" and "Quarterly Results" for further information on the factors contributing to the variances.

Quarterly Results

The following table presents selected data derived from our financial statements for each of the eight most recently completed quarters. This information should be read in conjunction with the applicable interim unaudited and annual audited financial statements and related notes.

*Quarterly financial information for the eight quarters ended March 31, 2020
(in 000's, except as otherwise indicated)*

| | Q2 2020 March 31, 2020 | Q1 2020 Dec 31, 2019 | Q4 2019 Sept 30, 2019 | Q3 2019 June 30, 2019 |
|---|---|---|--|--|
| Revenue | 5,028 | 6,316 | 6,626 | 7,035 |
| Cost of sales | 4,539 | 4,884 | 5,204 | 5,738 |
| Gross profit | 490 | 1,431 | 1,422 | 1,297 |
| Gross Margin% | 10% | 23% | 21% | 18% |
| Operating expenses | 1,308 | 1,155 | 1,274 | 1,170 |
| Gain on disposal of assets held for sale | - | (948) | - | - |
| Goodwill impairment | 1,592 | - | - | - |
| Finance costs | 115 | 154 | 110 | 115 |
| (Loss) earnings before provision for income tax | (2,525) | 1,070 | 37 | 12 |
| Income tax (recovery) expense | (257) | 226 | (2) | 3 |
| Net (Loss) earnings | (2,268) | 844 | 39 | 10 |
| Weighted average common shares outstanding | 28,675,695 | 28,675,695 | 28,675,695 | 28,675,695 |
| (Loss) earnings per share – basic and diluted | (0.08) | 0.03 | 0.00 | 0.00 |
| | Q2 2019 March 31, 2019 | Q1 2019 Dec 31, 2018 | Q4 2018 Sept 30, 2018 | Q3 2018 June 30, 2018 |
| Revenue | 6,990 | 7,601 | 8,563 | 8,416 |
| Cost of sales | 5,508 | 5,940 | 6,743 | 6,763 |
| Gross profit | 1,481 | 1,661 | 1,820 | 1,653 |
| Gross Margin% | 21% | 22% | 21% | 20% |
| Operating expenses | 1,197 | 1,259 | 1,477 | 1,459 |
| Gain on disposal of assets held for sale | - | - | - | - |
| Finance costs | 122 | 135 | 134 | 128 |
| Earnings before provision for income tax | 162 | 267 | 209 | 65 |
| Income tax expense (recovery) | 50 | 78 | (2,116) | - |
| Net earnings | 112 | 189 | 2,325 | 65 |
| Weighted average common shares outstanding | 28,675,695 | 28,675,695 | 28,675,695 | 28,650,735 |
| Earnings per share – basic and diluted | 0.00 | 0.01 | 0.08 | 0.00 |

Q2 20 vs Q2 19

Revenues, gross profit and gross margin in the second quarter of 2020 were \$5.0 million, \$490,000 and 10% respectively. Total revenue declined by approximately \$2.0 million primarily due to a decline in the Military and Government sectors as a result of several one-time contracts that did not repeat in FY2020. Operating costs increased from \$1.2 million in Q2 2019 to \$1.3 million in Q2 2020, mainly as a result of increased bad debt expense. Further, the Company recognized an impairment of its goodwill during Q2 2020 of \$1.6 million. This non-cash impairment increased the loss for the quarter before provision for income tax and the net loss, which was a loss of \$2.5 million and net loss of \$2.3 million, respectively. This is compared to earnings before provision for income tax and net earnings of \$162,000 and \$112,000 respectively for the same quarter in 2019.

Q1 20 vs Q1 19

Revenues, gross profit and gross margin for the first quarter of 2020 were \$6.3 million, \$1.4 million and 23% respectively compared to \$7.6 million, \$1.7 million and 22% for the first quarter of 2019. Approximately \$1.0 million of this decrease comes from Military project revenue. The remaining decline can be mainly attributed to a decline in projects in the federal and provincial markets, as Q1 FY2020 continues to feel the effects of having less government site investigation and remediation projects from the summer months when compared to Q1 FY2019. Despite the decline in revenue, gross margin improved slightly due to the addition of some higher margin projects in Q1 2020. The Company recognized a gain on sale of its office building at 3108 Carp Road of \$948,000 in Q1 2020. This gain on sale contributed to the increase in earnings before provision for income tax and net earnings, which were \$1.1 million and \$844,000 respectively at December 31, 2019, compared to earnings before income tax of \$267,000 and net earnings of \$189,000 in the same quarter of the previous year.

Q4 19 vs Q4 18

Revenues, gross profit and gross margin in the fourth quarter of 2019 were \$6.6 million, \$1.4 million and 21% respectively. Total revenue declined by approximately \$1.9 million. Federal Government project revenue declined by approximately \$650,000 due to a decline in field investigation activity in Canada's far north as a result of delays in the commitment of funds because of the October federal election. In addition, Provincial and Territorial project revenue declined by approximately \$640,000 for Q4 2019 when compared with Q4 2018. Q4 2018 included several large site investigation and remediation projects related to emergency fuel spills in remote northern locations that did not repeat in Q4 2019. Military revenue was lower in Q4 2019 compared to Q4 2018. During Q4 2018 notable revenue was recognized for the one-time ROWPU 90 day military sustainment kit project that continued up until Q2 2019. These declines were offset by an increase in Commercial sector revenue of approximately \$500,000, which is mainly a result of an increase in project activity in Q4 2019 on commercial water treatment projects and site assessment and remediation associated with land development activity both in Ontario and Quebec. Net earnings were \$39,000 for the quarter ended September 30, 2019, compared to \$2.3 million in the same quarter of 2018. The Company recognized a deferred income tax asset

in the fourth quarter of 2018 in the amount of \$2.1 million, which significantly increased net earnings for Q4 2018.

Q3 19 vs Q3 18

Revenues, gross profit and gross margin in the third quarter of 2019 were \$7.0 million, \$1.3 million and 18% respectively. Total revenue declined by approximately \$1.4 million primarily due to multiple one-time engineered solutions projects in 2018 that did not reoccur in fiscal year 2019. In addition, there was a decline in revenue from the Government market as a result of slower than usual spending in anticipation of the election in Q4 2019. Gross margin declined to 18% from 20% for Q3 2018. Operating costs decreased favourably to \$1.2 million in Q3 2019 from \$1.5 million in Q3 2018 primarily due to cost savings resulting from the sale of the Company's El Salvador operations and improved credit risk management resulting in lower bad debt expense.

Summary of Cash Flows

| | For the six months ended | |
|---|--------------------------|-------------------------|
| | March 31, 2020 \$ | March 31, 2019 \$ |
| Cash provided by (used in) | | |
| Operating activities, before working capital | (419,260) | 533,699 |
| Operating activities, working capital | (405,078) | 768,638 |
| | | |
| Operating activities, after working capital | (824,338) | 1,302,337 |
| Investing activities | 1,051,424 | (10,857) |
| Financing activities | (470,184) | (1,291,480) |
| | | |
| Change in cash and cash equivalents | (243,098) | - |
| Cash and cash equivalents – Beginning of period | 243,098 | - |
| | | |
| Cash and cash equivalents – End of period | - | - |
| | | |

Cash used in operating activities of \$824,000 in the six months ended March 31, 2020 compared with cash produced from operating activities of \$1.3 million from the comparable period in 2019. The majority of the \$2.1 million decrease resulted from higher investment in working capital, specifically accounts receivable and a smaller decline in unbilled revenue from year-end compared to the same period in 2019.

Investing activities provided cash of \$1.1 million for YTD Q2 2020, which compared to cash used in investing activities of \$11,000 in the same period in 2019. The increase is related to the sale of the Company's office building at 3108 Carp Road in Q1 2020, which provided net proceeds of \$1.1 million.

For the six months ended March 31, 2020, cash used in financing activities was \$470,000 compared to cash used by financing activities of \$1.3 million in the same period of 2019. The lower cash used in 2020 was due to lower repayment of the Company's credit facility.

Liquidity

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. For the period ended March 31, 2020, the effective interest rate under this facility was 4.70% (2019 – 5.95%).

The Company has certain covenants in accordance with its short-term credit facilities, as well as cross-default provisions with the Company's term loan.

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.

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.

Business Outlook

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

The Company continues to target a well-diversified portfolio within its four key markets.

BluMetric has re-aligned its sales and marketing team and is taking various measures to increase its top line by strengthening its private sector focus and pursuing higher margin water treatment projects.

BluMetric also continues to hone efficiencies with respect to project implementation and to focus on improving cost controls in order to deliver the most cost effective, innovative solutions possible.

Some of the best opportunities for growth are with projects where the client's operating expenses can be reduced as a result of the Company's proposed solutions and where these solutions help clients meet more stringent regulatory requirements. To this end, the Company is continuously working to ensure its positioning as a leader in delivering state-of-the-art, affordable environmental solutions that are designed to the specialized needs of each client.

Business Risks

The reader is referred to the discussion on Business Risks found in the Company's MD&A for the year ended September 30, 2019.

There has been no significant change in BluMetric's risk factors, with the exception of the COVID-19 pandemic which may negatively impact the Company's ability to execute its strategy and conduct business operations.

As COVID-19's impact on Canada took hold in the quarter ended March 31, 2020, local governments in the jurisdictions served by BluMetric declared a state of emergency and implemented physical distancing measures to reduce the spread of COVID-19, which included the closure of non-essential businesses and travel restrictions.

Potential impacts on BluMetric from the response to COVID-19 could include:

- Additional suspensions for some of the Company's projects;
- Delays at of other projects to ensure health and safety standards are met;
- Supply disruptions related to materials or labour;
- Deferrals in the bidding process for some projects;
- Expected increase in costs for some existing projects; and
- The closure of Canada's North to non-resident travel and therefore a postponement of many Northern projects.

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

Factors mitigating the impact of COVID-19 include the deemed "essential" nature of many of BluMetric's projects, diversification of the Company's service offerings by market sectors and the implementation of a Pandemic Response Plan to ensure compliance with health and safety guidelines.

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, 2019.

New Accounting Standards

Note 4 of the Company's condensed interim financial statements and related notes for the three and six months ended March 31, 2020 discusses IFRS standards and interpretations that are issued and became effective for the Company on October 1, 2019.

Off-Balance Sheet Arrangements

Note 22 of the Company's audited financial statements and related notes for the year ended September 30, 2019 discusses commitments related to equipment leases and leases related to properties occupied by the Company. Many of these operating leases have fallen under IFRS 16 as implemented on October 1, 2019 and are now capitalized on the Statement of Financial Position. Please see note 4 in the Q2 2020 Condensed Interim Financial Statements for more information.

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.

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 |

Proposed Transactions and Subsequent Events

There are no proposed transactions or subsequent events for the quarter ended March 31, 2020.

Summary of Outstanding Shares and Dilutive Instruments

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

| | |
|----------|--------------------------|
| Shares: | 28,675,695 common shares |
| Options: | 1,010,000 options |

Inter-Corporate Relationships

There are no inter-corporate relationships for the quarter ended March 31, 2020.

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 sale of a building or goodwill impairment).

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 the Adjusted EBITDA is to provide additional useful information to investors and analysts and 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.

Management's Responsibility for Financial Reporting

The condensed interim 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 condensed interim financial statements conform to International 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.