

Financial Years Ended

September 30, 2018 and September 30, 2017

(expressed in Canadian Dollars)



January 28, 2019

Report to Shareholders

Over the past six years BluMetric has been in transition, which is not a single point event, but an evolutionary process. The transition began in November of 2012 with the merger of a private environmental consulting company (WESA) and a publicly traded environmental technology company (Seprotech). For the first two years, BluMetric struggled as it dealt with the demands associated with the integration of two very different but complementary companies.

For the ensuing three years the Company was challenged with cash flow management, its banking relationship, and its identity in the marketplace, but despite these challenges BluMetric was able to attain some degree of stability and produce a modest profit for four consecutive years.

In the spring of 2018, with the appointment of a new CEO, the integration and focusing of the company was accelerated by reorganizing the company to streamline operations and concentrate on strategic clients within a rational geographic reach. The 63% increase in before tax earnings between 2017 and 2018 does not do justice to the considerable effort expended to reorganise and refocus, but these efforts should be considered as an investment in an organization now poised for growth.

In 2018, BluMetric made the following organizational changes:

- Identified key markets and formulated a plan to pursue business in those markets;
- Established a presence in Thunder Bay, Ontario and disengaged from operations in Central America;
- Optimized the size of the staff and organized along discipline and market lines;
- Dedicated resources to enhance project management;
- Created a program to stimulate and retain young professionals;
- Developed a program to leverage the strengths of our senior staff;
- Initiated a process to cultivate relationships with premium business partners that will give BluMetric a broader reach in targeted geographies and technologies.

The organizational changes implemented in 2018 have gained traction and are beginning to show positive results, as noted by the following accomplishments:

- Complied with all financial and banking covenants;
- Removed the going concern note from the financial statements;
- Increased revenue by approximately \$1.7 million (6%) from the previous fiscal year to \$32.2 million;
- Increased earnings before provision for income tax for the year ended September 30, 2018 to \$543,580, a 63% increase when compared with net income of \$334,367 in the previous year;
- Recognized a deferred income tax asset of \$2.1 million for the year ended September 30, 2018, representing mainly loss carry forwards that will be used to offset future taxable income, as well

as deductions for tax related to capital (CCA) and scientific research and development (SR&ED). Previously, the Company had taken a full allowance against this asset.

- Increased net earnings to \$2.7 million for fiscal 2018 compared to \$0.3 million in the previous year, largely due to the recognition of the deferred income tax asset of \$2.1 million, as described above.
- Increased shareholders' equity by \$2.9 million;
- Attained a gross profit for the fiscal year of \$6.8 million. Gross margin was consistent with the previous year at 21%;
- Increased working capital by \$2.9 million;
- Decreased finance costs to \$547,127 for the year ended September 30, 2018 compared to \$691,678 reported for the year earlier;
- Awarded three major contracts in late fiscal year 2018 and early fiscal year 2019 in the Military market including:
 - a three year, \$14.4 million contract for the repair and overhaul of the Royal Canadian Navy's Shipboard Reverse Osmosis Desalination (SROD) purification units;
 - a \$1.76 million contract from DND for Sustainment Kits for Reverse Osmosis Water Purification Units (ROWPU) for the Canadian Armed Forces; and
 - a \$4.16 million contract with Seaspan for SROD units for the new RCN joint support ships. We are extremely pleased with this new Seaspan contract as it represents our first contract with a private shipyard that has global reach for our water purification technologies.

These achievements are a testimony to the dedication, innovation and commitment of the entire BluMetric team. With our company integrated, organized and focussed we look optimistically to the challenges, opportunities and growth that lie ahead of us in 2019.

Scott MacFabe, PHg, PG
Chief Executive Officer