

BluMetric Environmental Inc.

Condensed Interim Financial Statements
**For the Three and Nine Months Ended
June 30, 2021**
(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 June 30, 2021 and September 30, 2020

(expressed in Canadian dollars)

	June 30, 2021 \$	September 30, 2020 \$
Current assets		
Cash	3,785,328	2,470,002
Accounts receivable (note 4)	6,204,546	4,788,286
Unbilled revenue	2,448,424	2,770,720
Contract assets	1,807,087	2,451,726
Prepaid expenses	246,662	147,679
	<u>14,492,047</u>	<u>12,628,413</u>
Non-current assets		
Property and equipment	171,855	168,477
Intangible assets	53,656	48,474
Right-of-use assets (note 6)	735,591	1,207,018
Deferred income tax assets	887,146	1,464,309
	<u>1,848,248</u>	<u>2,888,278</u>
	<u>16,340,295</u>	<u>15,516,691</u>
Current liabilities		
Trade and other payables (note 9)	3,643,326	5,293,289
Income tax payable	121,572	-
Contract liabilities	1,024,476	228,825
Current portion of lease liabilities (note 6)	451,055	500,774
Current portion of long-term debt (note 10)	478,312	2,453,843
	<u>5,718,741</u>	<u>8,476,731</u>
Non-current liabilities		
Long-term debt (note 10)	1,608,137	164,656
Lease liabilities (note 6)	369,955	732,891
Advances	50,000	50,000
Due to shareholders	16,638	16,638
	<u>2,044,730</u>	<u>964,185</u>
	<u>7,763,471</u>	<u>9,440,916</u>
Shareholders' Equity		
Share capital	5,600,081	5,526,964
Contributed surplus and other equity	692,123	703,090
Retained earnings (deficit)	2,284,620	(154,279)
	<u>8,576,824</u>	<u>6,075,775</u>
	<u>16,340,295</u>	<u>15,516,691</u>

Approved by the Board of Directors

“Ian Mor Macdonald”
 Ian Mor Macdonald

Director

“Geoff Simonett”
 Geoff Simonett

Director

BluMetric Environmental Inc.
Condensed Interim Statements of Changes in Shareholders' Equity
For the nine months ended June 30, 2021 and 2020

(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	-	-	11,441	-	11,441
Net loss and comprehensive loss for the period	-	-	-	(750,696)	(750,696)
Balance – June 30, 2020	<u>28,675,695</u>	<u>5,526,964</u>	<u>699,178</u>	<u>(1,376,434)</u>	<u>4,849,708</u>
Balance – October 1, 2020	28,675,695	5,526,964	703,090	(154,279)	6,075,775
Share-based compensation (note 11)	-	-	17,950	-	17,950
Exercise of stock options (note 11)	220,000	73,117	(28,917)	-	44,200
Net earnings and comprehensive income for the period	-	-	-	2,438,899	2,438,899
Balance – June 30, 2021	<u>28,895,695</u>	<u>5,600,081</u>	<u>692,123</u>	<u>2,284,620</u>	<u>8,576,824</u>

BluMetric Environmental Inc.
Condensed Interim Statements of Net Earnings and Comprehensive Income
For the three and nine months ended June 30, 2021 and 2020

(expressed in Canadian dollars)

	<u>For the three months ended</u>		<u>For the nine months ended</u>	
	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Revenue (note 14,15)	8,488,308	6,858,006	25,779,224	18,201,826
Cost of sales (note 12)	6,295,292	5,516,290	18,703,117	14,939,211
Gross profit	2,193,016	1,341,716	7,076,107	3,262,615
Operating expenses and other items				
Selling, general and administrative (note 12)	1,147,288	1,117,916	3,497,113	3,580,437
Gain on disposal of assets held for sale (note 5)	-	-	-	(947,914)
Impairment of goodwill (note 7)	-	-	-	1,592,095
Other income	-	(833,257)	-	(833,257)
	1,147,288	284,659	3,497,113	3,391,361
Operating profit (loss)	1,045,728	1,057,057	3,578,994	(128,746)
Finance costs (note 12)	(40,234)	(113,936)	(281,295)	(382,917)
Earnings (loss) before income taxes	1,005,494	943,121	3,297,699	(511,663)
Income tax expense				
Current	226,077	-	281,637	2,357
Deferred	92,183	269,876	577,163	236,676
	318,260	269,876	858,800	239,033
Net earnings (loss) and comprehensive income (loss) for the period	687,234	673,245	2,438,899	(750,696)
Earnings (loss) per share				
Basic	0.02	0.02	0.08	(0.03)
Diluted	0.02	0.02	0.08	(0.03)
Weighted average number of shares outstanding (note 13)				
Basic	28,836,574	28,675,695	28,731,885	28,675,695
Diluted	29,168,721	28,689,365	28,913,980	28,691,329

BluMetric Environmental Inc.
Condensed Interim Statements of Cash Flows
For the nine months ended June 30, 2021 and 2020

(expressed in Canadian dollars)

	For the nine months ended	
	June 30, 2021	June 30, 2020
	\$	\$
Cash provided by (used in)		
Operating activities		
Net earnings (loss) and comprehensive income (loss) for the period	2,438,899	(750,696)
Non-cash items:		
Deferred income tax expense	577,163	236,676
Increase (decrease) in credit loss allowance	(66,171)	342,905
Depreciation of property and equipment	45,571	35,035
Amortization of intangible assets	8,000	6,563
Depreciation of right of use assets (note 6)	403,303	304,777
Gain on disposal of assets held for sale (note 5)	-	(947,914)
Amortization of deferred financing costs	6,508	8,368
Financing fees on debt repayment	4,649	23,948
Share-based compensation (note 11)	17,950	11,441
Impairment of goodwill (note 7)	-	1,592,095
Impairment of computer hardware	90,418	-
Changes in working capital balances	(1,219,152)	1,026,407
	<u>2,307,138</u>	<u>1,889,605</u>
Investing activities		
Acquisition of property, plant and equipment	(119,210)	(43,200)
Acquisition of intangible assets	(13,181)	-
Proceeds on disposal of other assets held for sale, net of transaction costs (note 5)	-	1,079,424
	<u>(132,391)</u>	<u>1,036,224</u>
Financing activities		
Repayment of demand loan (note 5)	-	(925,000)
Repayment of long-term debt (note 10)	(2,543,207)	(40,575)
Proceeds from long-term debt refinancing (note 10)	2,000,000	-
Principal payments on leases (note 6)	(360,414)	(281,548)
Exercise of stock options	44,200	-
	<u>(859,421)</u>	<u>(1,247,123)</u>
Change in cash and cash equivalents during the period	1,315,326	1,678,706
Cash and cash equivalents – Beginning of period	2,470,002	243,098
Cash and cash equivalents – End of period	3,785,328	1,921,804
Supplementary Information		
Interest paid	208,807	311,238

BluMetric Environmental Inc.

Notes to Condensed Interim Financial Statements

For the three and nine months ended June 30, 2021 and 2020

(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 (TSXV – 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 unaudited interim financial statements were approved and authorized for issue by the Board of Directors on August 26, 2021.

Presentation and functional currency

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

Basis of measurement

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

COVID-19

The global COVID-19 pandemic continues to create volatility at local, national and global levels. Significant uncertainty continues regarding both the impact of COVID-19 on the Company and its markets as well as the length of time it will take for the economy to return to pre-COVID-19 levels. Canada has had success in its vaccine roll-out in recent months; however, the possibility remains for future surges of COVID-19 as new variants of the virus emerge. 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 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.

BluMetric Environmental Inc.
Notes to Condensed Interim Financial Statements
For the three and nine months ended June 30, 2021 and 2020

(expressed in Canadian dollars)

3 Summary of significant accounting policies

The accounting policies set out in the Company's most recent annual audited financial statements have been applied consistently to all periods presented in these condensed unaudited interim financial statements. As such, these condensed unaudited interim financial statements should be read in conjunction with the annual audited financial statements and related note disclosures for the year ended September 30, 2020.

The Company has changed the presentation of the condensed interim statements of cash flows to reflect only cumulative year-to-date information in accordance with IAS 34.

4 Accounts receivable

	June 30, 2021 \$	September 30, 2020 \$
Trade and other receivables	6,541,353	5,196,859
Credit loss allowance – accounts receivable	(336,807)	(408,573)
	6,204,546	4,788,286

5 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 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. Proceeds from the sale were used to extinguish the Company's demand loan.

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	(31,482)	(16,485)	-	(47,967)
Impairment	-	-	(20,157)	(20,157)
Depreciation	(373,749)	(6,025)	(23,529)	(403,303)
Balance – June 30, 2021	695,127	6,180	34,284	735,591

BluMetric Environmental Inc.
Notes to Condensed Interim Financial Statements
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(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	(34,832)	(17,409)	-	(52,241)
Cash interest paid	43,327	381	2,992	46,700
Gross payments	(374,922)	(6,452)	(25,740)	(407,114)
Balance – June 30, 2021	757,293	6,326	57,391	821,010
Less: Current portion				451,055
Non-current portion				369,955

Right-of-use assets

	Offices \$	Vehicles \$	IT equipment \$	Total \$
Balance – October 1, 2019	937,290	41,249	109,342	1,087,881
Additions	177,609	-	-	177,609
Depreciation	(271,829)	(9,419)	(23,529)	(304,777)
Balance – June 30, 2020	843,070	31,830	85,813	960,713

Lease liabilities

	Offices \$	Vehicles \$	IT equipment \$	Total \$
Balance – October 1, 2019	943,639	41,778	110,004	1,095,421
Additions	177,609	-	-	177,609
Cash interest paid	35,098	1,279	3,252	39,629
Gross payments	(285,095)	(10,342)	(25,740)	(321,177)
Balance – June 30, 2020	871,251	32,715	87,516	991,482
Less: Current portion				424,104
Non-current portion				567,378

BluMetric Environmental Inc.
Notes to Condensed Interim Financial Statements
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(expressed in Canadian dollars)

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 sublease 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 nine months ended	
	June 30, 2021	June 30, 2020
	\$	\$
Amounts recognized in selling, general and administrative		
Rent expense – variable lease payments	184,183	128,212
Expense related to short-term leases	151,027	157,702
Expense related to low-value assets	35,841	30,447
Income from subleases	(8,870)	(10,029)
	<u>362,181</u>	<u>306,332</u>

	For the nine months ended	
	June 30, 2021	June 30, 2020
	\$	\$
Amounts recognized in the statements of cash flow		
Cash payments for the interest portion of lease liabilities	46,700	39,629
Cash payments for leases not included in the measurement of lease liabilities	<u>362,181</u>	<u>306,332</u>
Cash outflow in operating activities	408,881	345,961
Cash payments for the principal portion of lease liabilities included in financing activities	<u>360,414</u>	<u>281,548</u>
Total cash outflow for leases	<u>769,295</u>	<u>627,509</u>

BluMetric Environmental Inc.
Notes to Condensed Interim Financial Statements
For the three and nine months ended June 30, 2021 and 2020

(expressed in Canadian dollars)

7 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, 2020.

In the period ended March 31, 2020, the Company identified certain indicators of impairment which resulted in the recognition of an impairment charge of \$1,592,095. For detail on the indicators noted, determination of the recoverable amount, as well as significant assumptions and sensitivities refer to the Company's annual financial statements for the year ended September 30, 2020.

8 Credit facilities

As at June 30, 2021, the Company had drawn \$nil on its operating demand loan and \$nil in letters of credit (2020 – \$nil and \$nil, respectively). The Company has \$2.5 million in credit available under this facility.

The Company has certain covenants in accordance with its short-term credit facilities. As at June 30, 2021, the Company was in compliance with all its covenants.

9 Trade and other payables

	June 30, 2021 \$	September 30, 2020 \$
Trade payables	1,953,795	3,532,562
Salaries and benefits payable	946,787	827,675
Other accrued liabilities and payables	742,744	933,052
	<hr/> 3,643,326	<hr/> 5,293,289

10 Long-term debt

	June 30, 2021 \$	September 30, 2020 \$
Term loan, net of deferred financing costs of \$nil (September 30, 2020 – \$11,157), bearing interest at 10%	-	2,453,843
Term loan, bearing interest at 3.28%	1,921,793	-
Restructured trade debt	164,656	164,656
	<hr/> 2,086,449	<hr/> 2,618,499
Less: Current portion	478,312	2,453,843
	<hr/> 1,608,137	<hr/> 164,656

BluMetric Environmental Inc.

Notes to Condensed Interim Financial Statements

For the three and nine months ended June 30, 2021 and 2020

(expressed in Canadian dollars)

On April 20, 2021, the Company entered into a letter of agreement with its bank for a new \$2.0 million term loan. The proceeds from the new term loan were used to extinguish the existing term loan that was due to expire on August 15, 2021. The new term loan has a closed four-year term and carries an interest rate of 3.28% per annum with monthly blended payments of \$44,517 commencing May 31, 2021. The new term loan matures April 30, 2025, will be carried at amortized cost and is subject to the same covenants as the Company's short term credit facilities.

The Company has certain covenants in respect of financial ratio maintenance in accordance with its new term loan. As at June 30, 2021, the Company was in compliance with all its covenants.

11 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.

During the nine months ended June 30, 2021, the Company recognized \$17,950 (2020 – \$11,441) in share-based compensation expense and had 220,000 options exercised with a weighted average exercise price of \$0.20 and a weighted average market price of \$0.45. The shares were exercised for total proceeds of \$44,200.

During the nine months ended June 30, 2021, the Company granted options for 80,000 common shares to certain Board members in connection with the Company's Board compensation policy. These options vest over one to three years and expire after five years.

BluMetric Environmental Inc.
Notes to Condensed Interim Financial Statements
For the three and nine months ended June 30, 2021 and 2020

(expressed in Canadian dollars)

12 Other expense items

	<u>For the three months ended</u>		<u>For the nine months ended</u>	
	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Personnel	3,665,930	3,061,365	10,769,026	9,436,359
Direct project expenses	3,109,072	2,849,332	9,297,385	6,645,482
Depreciation and amortization	152,071	119,834	456,874	346,375
Other operating expense	515,507	603,675	1,676,945	2,091,432
	<u>7,442,580</u>	<u>6,634,206</u>	<u>22,200,230</u>	<u>18,519,648</u>
Reported as:				
Cost of sales	6,295,292	5,516,290	18,703,117	14,939,211
Selling, general and administrative	1,147,288	1,117,916	3,497,113	3,580,437
	<u>7,442,580</u>	<u>6,634,206</u>	<u>22,200,230</u>	<u>18,519,648</u>
Finance costs				
Interest on restructured debt	4,140	4,056	11,955	12,413
Interest on term and bank loans	9,784	90,099	194,226	296,200
Interest on leases	13,646	15,370	46,782	45,473
Bank charges	11,358	3,569	18,527	20,798
Other finance charges	1,306	842	9,805	8,033
	<u>40,234</u>	<u>113,936</u>	<u>281,295</u>	<u>382,917</u>

13 Earnings per share

	<u>For the three months ended</u>		<u>For the nine months ended</u>	
	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Issued common shares	28,895,695	28,675,695	28,895,695	28,675,695
Weighted average number of basic common shares	28,836,574	28,675,695	28,731,885	28,675,695
Effect of share options on issuance	332,147	13,670	182,095	15,634
Weighted average number of diluted common shares	<u>29,168,721</u>	<u>28,689,365</u>	<u>28,913,980</u>	<u>28,691,329</u>

BluMetric Environmental Inc.
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(expressed in Canadian dollars)

Options that were anti-dilutive are not included in the computation of diluted common shares. For the nine months ended June 30, 2021, 20,000 were excluded from the calculation because they were anti-dilutive (2020 – 930,000).

14 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 profit and is measured consistently with gross profit 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:

	<u>For the three months ended</u>		<u>For the nine months ended</u>	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
	\$	\$	\$	\$
Canada	8,488,308	6,740,517	25,716,050	18,013,869
Other countries	-	117,489	63,174	187,957
	<u>8,488,308</u>	<u>6,858,006</u>	<u>25,779,224</u>	<u>18,201,826</u>

For the nine months ended June 30, 2021, approximately 53% of revenue (2020 – 46%) was derived from four customers, three of which account for over 10% of total revenue (2020 – 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).

BluMetric Environmental Inc.
Notes to Condensed Interim Financial Statements
For the three and nine months ended June 30, 2021 and 2020

(expressed in Canadian dollars)

15 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 June 30, 2021		
	Fixed price	Time and materials	Total
	\$	\$	\$
Commercial and industrial	858,440	2,862,034	3,720,474
Government	1,007,488	771,471	1,778,959
Military	455,064	1,578,409	2,033,473
Mining	107,479	847,923	955,402
	2,428,471	6,059,837	8,488,308
	For the three months ended June 30, 2020		
	Fixed price	Time and materials	Total
	\$	\$	\$
Commercial and industrial	484,162	1,515,169	1,999,331
Government	685,905	399,149	1,085,054
Military	854,380	1,381,655	2,236,035
Mining	333,469	1,204,117	1,537,586
	2,357,916	4,500,090	6,858,006
	For the nine months ended June 30, 2021		
	Fixed price	Time and materials	Total
	\$	\$	\$
Commercial and industrial	1,919,247	7,985,271	9,904,518
Government	3,350,653	2,592,826	5,943,479
Military	982,984	4,731,139	5,714,123
Mining	626,567	3,590,537	4,217,104
	6,879,451	18,899,773	25,779,224

BluMetric Environmental Inc.
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For the three and nine months ended June 30, 2021 and 2020

(expressed in Canadian dollars)

	For the nine months ended June 30, 2020		
	Fixed price \$	Time and materials \$	Total \$
Commercial and industrial	1,908,713	4,452,314	6,361,027
Government	1,527,522	1,748,153	3,275,675
Military	1,359,216	3,299,086	4,658,302
Mining	732,051	3,174,771	3,906,822
	5,527,502	12,674,324	18,201,826

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

16 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 nine months ended	
	June 30, 2021 \$	June 30, 2020 \$	June 30, 2021 \$	June 30, 2020 \$
Salaries	260,981	199,739	718,594	637,622
Short-term benefits	24,445	25,771	75,192	78,281
Share-based compensation	3,543	3,655	17,950	11,441
	288,969	229,165	811,736	727,344

For the period ended June 30, 2021, amounts owing to related parties recorded in the statements of financial position were \$nil (2020– \$nil).