

# **BluMetric Environmental Inc.**

Financial Statements

**September 30, 2020 and 2019**

(expressed in Canadian dollars)



## Independent auditor's report

To the Shareholders of BluMetric Environmental Inc.

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### Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of BluMetric Environmental Inc. (the Company) as at September 30, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

#### What we have audited

The Company's financial statements comprise:

- the statements of financial position as at September 30, 2020 and 2019;
- the statements of changes in shareholders' equity for the years then ended;
- the statements of net earnings and comprehensive income for the years then ended;
- the statements of cash flows for the years then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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### Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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### Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### **Responsibilities of management and those charged with governance for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting



a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Leanne Hassell.

*PricewaterhouseCoopers LLP*

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Ontario  
January 27, 2021

**BluMetric Environmental Inc.**  
**Statements of Financial Position**  
**For the years ended September 30, 2020 and 2019**

(expressed in Canadian dollars)

	2020 \$	2019 \$
<b>Current assets</b>		
Cash	2,470,002	243,098
Accounts receivable (note 6)	4,788,286	3,839,265
Unbilled revenue (note 25)	2,770,720	2,666,608
Contract assets (note 25)	2,451,726	1,383,409
Prepaid expenses	147,679	196,684
	12,628,413	8,329,064
Assets held for sale (note 7)	-	131,510
<b>Non-current assets</b>		
Property and equipment (note 8)	168,477	190,058
Intangible assets (note 9)	48,474	50,926
Right-of-use assets (notes 4, 10)	1,207,018	-
Goodwill (note 11)	-	1,592,095
Deferred income tax assets (note 19)	1,464,309	2,159,329
	2,888,278	3,992,408
	15,516,691	12,452,982
<b>Current liabilities</b>		
Trade and other payables (note 13)	5,293,289	2,995,982
Contract liabilities (note 25)	228,825	140,383
Demand loan (note 14)	-	901,052
Current portion of lease liabilities (notes 4, 10)	500,774	-
Current portion of long-term debt (note 15)	2,453,843	64,797
	8,476,731	4,102,214
<b>Non-current liabilities</b>		
Long-term debt (note 15)	164,656	2,695,167
Lease liabilities (notes 4, 10)	732,891	-
Advances (note 16)	50,000	50,000
Due to shareholders (note 17)	16,638	16,638
	964,185	2,761,805
	9,440,916	6,864,019
<b>Shareholders' Equity</b>		
Share capital (note 18)	5,526,964	5,526,964
Contributed surplus and other equity (note 18)	703,090	687,737
Accumulated deficit	(154,279)	(625,738)
	6,075,775	5,588,963
	15,516,691	12,452,982

**Approved by the Board of Directors**

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 "Jane Pagel" Director  
 Jane Pagel

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 "Geoff Simonett" Director  
 Geoff Simonett

**BluMetric Environmental Inc.**  
**Statements of Changes in Shareholders' Equity**  
**For the years ended September 30, 2020 and 2019**

(expressed in Canadian dollars)

	Common shares #	Share capital \$	Contributed surplus and other equity \$	Retained earnings (deficit) \$	Total \$
<b>Balance – October 1, 2018</b>	28,675,695	5,526,964	644,288	(933,517)	5,237,735
Impact of change in accounting policy (adoption of IFRS 9)	-	-	-	(43,139)	(43,139)
<b>October 1, 2018 – As restated</b>	28,675,695	5,526,964	644,288	(976,656)	5,194,596
Share-based compensation (note 18)	-	-	43,449	-	43,449
Net earnings and comprehensive income for the year	-	-	-	350,918	350,918
<b>Balance – September 30, 2019</b>	<u>28,675,695</u>	<u>5,526,964</u>	<u>687,737</u>	<u>(625,738)</u>	<u>5,588,963</u>
<b>Balance – October 1, 2019</b>	28,675,695	5,526,964	687,737	(625,738)	5,588,963
Share-based compensation (note 18)	-	-	15,353	-	15,353
Net earnings and comprehensive income for the year	-	-	-	471,459	471,459
<b>Balance – September 30, 2020</b>	<u>28,675,695</u>	<u>5,526,964</u>	<u>703,090</u>	<u>(154,279)</u>	<u>6,075,775</u>

**BluMetric Environmental Inc.**  
**Statements of Net Earnings and Comprehensive Income**  
**For the years ended September 30, 2020 and 2019**

(expressed in Canadian dollars)

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
<b>Revenue</b> (note 24, 25)	28,621,333	28,252,230
<b>Cost of sales</b> (note 20)	22,498,053	22,390,468
<b>Gross profit</b>	6,123,280	5,861,762
<b>Operating expenses and other items</b>		
Selling, general and administrative (note 20)	4,930,768	4,899,743
Gain on disposal of assets held for sale (note 7)	(947,914)	-
Impairment of goodwill (note 11)	1,592,095	-
Other income (note 2)	(1,161,523)	-
	4,413,426	4,899,743
<b>Operating profit</b>	1,709,854	962,019
<b>Finance costs</b> (note 20)	(507,876)	(482,812)
<b>Earnings before income taxes</b>	1,201,978	479,207
Income tax expense (note 19)	730,519	128,289
<b>Net earnings and comprehensive income for the year</b>	471,459	350,918
<b>Earnings per share</b>		
Basic	0.02	0.01
Diluted	0.02	0.01
<b>Weighted average number of shares outstanding</b> (note 21)		
Basic	28,675,695	28,675,695
Diluted	28,691,956	28,675,695

**BluMetric Environmental Inc.**  
**Statements of Cash Flows**  
**For the years ended September 30, 2020 and 2019**

(expressed in Canadian dollars)

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net earnings and comprehensive income for the year	471,459	350,918
Non-cash items		
Deferred income tax expense	695,020	128,289
Increase in credit loss allowance (note 28)	388,896	89,053
Depreciation of property and equipment (note 8)	48,362	102,056
Amortization of intangible assets (note 9)	8,751	3,814
Depreciation of right-of-use assets (note 10)	429,114	-
Gain on disposal of assets held for sale (note 7)	(947,914)	-
Amortization of deferred financing costs	11,157	12,451
Financing fees on debt repayment (note 14)	23,948	-
Share-based compensation (note 18)	15,353	43,449
Impairment of goodwill (note 11)	1,592,095	-
Change in working capital balances (note 22)	(69,244)	1,325,740
	<u>2,666,997</u>	<u>2,055,770</u>
<b>Investing activities</b>		
Acquisition of property and equipment (note 8)	(89,112)	(91,147)
Acquisition of intangible asset (note 9)	(6,299)	(28,800)
Acquisition costs related to right-of-use assets	(22,928)	-
Proceeds on disposal of assets held for sale, net of transaction costs of \$70,576 (note 7)	1,079,424	-
	<u>961,085</u>	<u>(119,947)</u>
<b>Financing activities</b>		
Decrease in bank indebtedness	-	(1,596,475)
Repayment of demand loan (note 14)	(925,000)	(50,000)
Repayment of long-term debt	(89,100)	(40,961)
Principal payments on leases under IFRS 16 (note 10)	(387,078)	-
Principal payments on finance leases (under IAS 17)	-	(5,289)
	<u>(1,401,178)</u>	<u>(1,692,725)</u>
<b>Change in cash and cash equivalents during the year</b>	<b>2,226,904</b>	<b>243,098</b>
<b>Cash and cash equivalents – Beginning of year</b>	<b>243,098</b>	<b>-</b>
<b>Cash and cash equivalents – End of year</b>	<b><u>2,470,002</u></b>	<b><u>243,098</u></b>
<b>Supplementary information</b>		
Interest paid	394,427	440,166
Tax paid	2,267	-



# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

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(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 financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

### Authorization of financial statements

The financial statements were approved and authorized for issue by the Board of Directors on January 27, 2021.

### Presentation and functional currency

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

### Basis of measurement

The financial statements have been prepared on the historical cost basis, except assets held for sale, which are measured at the lower of cost and fair value less cost to sell.

### Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, revenue and expenses is provided below. Actual results may be substantially different.

### Critical accounting judgments and estimates

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of the Company's assets, liabilities, revenue and expenses during the reporting period presented. Uncertainty inherent in these assumptions and estimates could result in a material adjustment to the carrying value of the asset or liability affected.

Estimates and underlying assumptions are reviewed on an ongoing basis and updated based on experience and new information.

# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

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(expressed in Canadian dollars)

The following are the significant judgments and key assumptions concerning major sources of estimation uncertainty that are more likely to result in a material adjustment to the carrying amount of assets and liabilities in the financial statements:

- Percentage of completion of contracts with fixed prices or price ceilings

The Company accounts for its revenue from fixed-price and variable-price-with-ceiling contracts (i.e., time and material (T&M) contracts with a cap) using the percentage of completion method, which requires estimates to be made for expected contract costs and revenues.

Contract costs include direct labour, direct materials and direct costs for subcontractors, and other expenditures that are recoverable directly from customers. Progress on jobs is regularly reviewed by management and estimated costs to complete are revised based on the information available at the end of each reporting period. Contract cost estimates are based on various assumptions that can result in a change to contract profitability from one financial reporting period to another, including labour productivity and availability, the complexity of the work to be performed, the cost and availability of materials, the performance of material suppliers to deliver on time, the performance of subcontractors, differing site conditions, unusual weather conditions and the accuracy of original bid estimates.

- Impairment assessments

Long-lived non-financial assets, such as right-of-use assets, property and equipment and intangible assets, subject to depreciation and amortization, are tested for recoverability when there is an indication that their carrying value may not be recoverable. Goodwill is tested at least annually or sooner when impairment indicators are present. In many cases, determining if there are any facts and circumstances indicating an impairment loss, or the reversal of an impairment loss other than for goodwill, is a subjective process involving judgment surrounding a number of assumptions. The carrying value of a long-lived asset is not recoverable when it exceeds the recoverable amount, which is the higher of an asset's fair value less costs of disposal and its value in use. Fair value estimates are impacted by changes in market conditions that could materially impact the determination of fair value and, therefore, could reduce or eliminate the excess of fair value over the carrying value of a reporting unit entirely and could potentially result in an impairment charge in the future. In the current year, an impairment loss was recorded on goodwill. See note 11 for details.

- Expected credit losses

Impairment of financial assets uses an expected credit loss (ECL) model to estimate credit losses over the lifetime of a financial asset using historical payment experience, the age of outstanding receivables and forward-looking information where applicable. The Company applies this model to its accounts receivable, unbilled revenue and contract assets. The ECL allowance estimates the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive.

- Recognition of deferred income tax assets

Management continually evaluates the likelihood that its deferred tax assets will be realized. This requires management to assess whether it is probable that sufficient taxable income will exist in the future to utilize these losses within the carry-forward period. By its nature, this assessment requires judgment with respect to the assumptions used to estimate future taxable income.

# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

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(expressed in Canadian dollars)

- Leases

The adoption of IFRS 16, “Leases” on October 1, 2019, requires judgment around determining the appropriate discount rate, whether it is reasonably certain that an extension or termination option will be exercised, whether variable payments are in substance fixed and whether a right-of-use asset is impaired.

Changes in these estimates and assumptions could affect the identification and determination of the value of lease liabilities and right-of-use assets at initial recognition, as well as the subsequent measurement of lease liabilities and right-of-use assets. These items could potentially result in changes to amounts reported in the statements of net earnings and comprehensive income and statements of financial position in a given period. Refer to note 4 for more details.

## COVID-19

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. Governments in the jurisdictions in which the Company operates declared a state of emergency in response to the COVID-19 pandemic. These government directives have impacted the Company’s operations and have led to significant volatility in local and global markets. Initially, the Company experienced negative impacts to a number of its projects as customers adjusted operations to comply with government directives. However, in the last half of the fiscal year, the Company was awarded some contracts specifically to assist customers with managing the impacts of COVID-19.

Significant uncertainty continues regarding the length of time it will take for the economy to return to pre-COVID-19 levels. 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 estimates and judgments made by the Company in preparing these financial statements due to the uncertainty posed by the pandemic are summarized below:

- Impairment of goodwill and non-financial assets

During the six-month period ended March 31, 2020, indicators of impairment were identified that included a significant decline in the Company’s market capitalization to less than the carrying value of the Company’s net assets and a reduction to near-term internal operating forecasts due to economic uncertainty arising from the COVID-19 pandemic. The Company performed an impairment test as at March 31, 2020 in accordance with its accounting policy, which resulted in the full impairment of goodwill (see note 11). The impairment loss cannot be reversed in future periods.

As at September 30, 2020, no further indicators of impairment were identified and the Company expects its non-financial assets to be fully recoverable.

# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

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(expressed in Canadian dollars)

- Impact on the macro economic outlook and collectibility of financial assets

The Company's 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 (note 28). 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.

Other material impacts to the Company related to COVID-19 are summarized below:

- Government assistance

The Company applied for assistance under the Canada Emergency Wage Subsidy (CEWS) upon meeting the subsidy's eligibility criteria. The Company recognized \$1,161,523 related to CEWS during the year ended September 30, 2020 as other income in the statements of net earnings and comprehensive income, of which \$168,965 remained outstanding in the financial statements and was received subsequent to year-end on October 20, 2020 (see note 3 for more detail).

### 3 Summary of significant accounting policies

#### Cash

Cash includes cash on hand, deposits held at call with financial institutions with original maturities of three months or less that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value, and bank overdrafts. Overdraft balances are netted from the cash balance where the Company has a legal right of offset. Where such legal right of offset does not exist, bank overdrafts are presented as bank indebtedness within current liabilities.

#### Property and equipment

Property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property and equipment comprises its purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, where applicable, borrowing costs and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Company reviews residual values and updates the remaining useful lives as required at least annually.

Depreciation is calculated on a straight-line basis to depreciate the cost less estimated residual value over the anticipated useful lives of the assets as follows:

Computer hardware	5 years
Field equipment	5 years
Office furniture and equipment	5 years
Leasehold improvements	over term of lease
Vehicles	3 years

Depreciation is included in selling, general and administrative expenses in the statements of net earnings and comprehensive income.

# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

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(expressed in Canadian dollars)

## Intangible assets

Intangible assets are recorded at cost less accumulated amortization and impairment. They are amortized on a straight-line basis over their remaining estimated useful lives as these assets are considered finite.

The following useful lives are applied:

Trademarks	25 years
Computer software	5 years
Patents	17 years

Amortization is included in selling, general and administrative expenses in the statements of net earnings and comprehensive income.

## Impairment of tangible and intangible assets with finite useful lives

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication those assets have suffered impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units or CGUs).

The recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statements of net earnings and comprehensive income. Impairment losses for CGU are charged pro rata to the assets in the CGU.

Where an impairment loss is subsequently reversed, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (CGU) in prior years. A reversal of an impairment loss is recognized immediately in the statements of net earnings and comprehensive income.

## Assets held for sale

Non-current assets classified as held for sale are presented separately and are measured at the lower of their carrying amounts immediately prior to their classification as held for sale and their fair value less costs to sell. While classified as held for sale, no depreciation is taken.

## Goodwill

Goodwill is tested for impairment annually, or more frequently when there is an indication the CGU may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of goodwill allocated to the CGU and then to the other assets of the CGU on a pro rata basis of the carrying amount of each asset. For purposes of goodwill impairment testing, the Company has one CGU, which is the Company as a whole.

# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

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(expressed in Canadian dollars)

An impairment loss recognized for goodwill is not reversed in a subsequent period, even if future events suggest the value of goodwill has been recovered.

## **Provisions and contingent liabilities**

Provisions represent liabilities of the Company for which the amount or timing is uncertain. Provisions are recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognized as a provision is the best estimate of the present value of the expenditure required to settle the present obligation at the end of the reporting period.

The Company provides warranties on goods delivered to customers. These provisions are established based on management's best estimates as to the amounts that could be disbursed to remedy a potential defect with the equipment and are typically a percentage of the sales or contract price. Relevant disbursements made by the Company are accounted for by reducing the associated provision when the claim from the customer is deemed relevant, in accordance with the contract terms and conditions.

Contingent liabilities represent a possible obligation to the Company arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are not entirely within the control of the Company, or a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

## **Borrowings**

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in the statements of net earnings and comprehensive income over the period of the borrowings using the effective interest rate method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are removed from the statements of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in the statement of net earnings and comprehensive income as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognized in the statement of net earnings and comprehensive income, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Borrowings consist of the demand loan, advances, due to shareholders and long-term debt.

# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

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(expressed in Canadian dollars)

Royalties embedded in long-term debt are accounted for as executory liabilities under International Accounting Standard (IAS) 37, Provisions, Contingent Liabilities and Contingent Assets as they do not meet the criteria of recognition of financial liabilities under IFRS 9, Financial Instruments.

## **Leases** (applicable until September 30, 2019)

Leases are classified as either operating or finance, based on the substance of the transaction at inception of the lease.

An operating lease is a lease in which a significant portion of the risks and rewards of ownership are retained by the lessor. Payments under an operating lease are recognized as an expense on a straight-line basis over the period of the lease. Associated costs, such as maintenance and insurance, are expensed as incurred.

Leases in which substantially all the risks and rewards of ownership are transferred to the Company are classified as finance leases. Assets meeting finance lease criteria are capitalized at the lower of the present value of the related lease payments plus incidental payments or the fair value of the leased asset at the inception of the lease. Minimum lease payments are apportioned between the finance cost and the liability. The finance charge is recognized in the statements of net earnings and comprehensive income in finance costs and is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Refer to note 4 for the impact of the adoption of IFRS 16, Leases, which is applicable from October 1, 2019.

## **Income taxes**

Income tax expense comprises both current and deferred tax, which is recognized in the statements of net earnings and comprehensive income, except to the extent it relates to items recognized directly in the statements of shareholders' equity. When it relates to the latter, the income tax is recognized directly in the statements of shareholders' equity.

Current tax expense is based on the results for the period as adjusted for items that are not taxable or deductible, and is based on tax rates and laws that have been enacted by the end of the reporting period.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. Current income tax liabilities are established where appropriate on the basis of amounts expected to be paid to the taxing authorities.

Deferred tax is recognized for temporary differences arising between the tax basis of assets and liabilities and their carrying amounts. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred tax is calculated, without discounting, using tax rates and laws enacted or substantively enacted at the reporting date in Canada, and which are expected to apply when the related deferred income tax asset is realized or the deferred tax liability is settled.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered. Deferred tax liabilities are always provided for in full.

# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

---

(expressed in Canadian dollars)

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off the recognized amounts and the deferred taxes relate to the same taxable entity and the same taxation authority.

## Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Company prior to the end of the financial year, which are unpaid. These amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

## Equity

- Share capital

Share capital represents the amount received for shares issued. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from share capital, net of any tax effects.

If shares are issued when options and warrants are exercised, the share capital account also comprises the compensation costs previously recorded as contributed surplus.

- Contributed surplus and other equity

Contributed surplus includes charges related to share options and warrants. When share options are exercised, the related compensation cost is transferred to share capital.

- Retained earnings (accumulated deficit)

Retained earnings (accumulated deficit) includes all current and prior period retained profits and losses.

## Share-based payments

The Company offers a share option plan to directors, executive officers, key employees and consultants who provide services to the Company.

All goods and services received in exchange for the grant of any share-based payments are measured at their fair values, unless that fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of goods and services received, it measures their value indirectly by reference to the fair value of the equity instruments granted. For transactions with employees and others providing similar services, the Company measures the fair value of the services received by reference to the fair value of the equity instruments granted.



# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

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(expressed in Canadian dollars)

The fair value at the grant date of share options is determined using the Black-Scholes option pricing model and is recognized in the statements of net earnings and comprehensive income as a compensation expense using a graded vesting schedule over the vesting period, based on the Company's estimate of the number of shares that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest based on actual forfeitures. Any impact arising from revision of the original estimates is recognized in comprehensive income such that the cumulative compensation expense reflects the revised estimate, with a corresponding adjustment to contributed surplus. No adjustment is made to any expense recognized in prior periods if the share options ultimately exercised are different from those estimated on vesting.

Any consideration received by the Company on the exercise of share options is credited to share capital and the related amount previously recognized in contributed surplus is transferred to share capital on the issuance of shares.

## Employee benefit plans

The Company maintains a defined contribution pension plan for employees in which the Company matches on a dollar for dollar basis contributions (up to a maximum of 2% to 5% of salary, as determined by a formula reflecting an individual's length of tenure and age) made by employees into a registered plan managed by a third party fund manager.

## Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker who is responsible for allocating resources and assessing the performance of the operating segments has been identified as (collectively) the Chief Executive Officer, the Chief Financial Officer and the Board of Directors.

The Company has determined that it has one operating reportable segment, being the Company taken as a whole.

## Revenue recognition

The Company provides professional services in the fields of environmental geosciences and engineering, industrial hygiene, occupational health and safety, water and wastewater treatment and environmental management. The Company's contracts are a mix between cost-reimbursable contracts that fall under the categories of T&M contracts and fixed-price contracts:

### *Cost-reimbursable contracts*

T&M contracts are common for smaller scale professional and technical consulting and certification services projects. Under these types of contracts, there is no predetermined fee. Instead, the Company negotiates hourly billing rates and charges the customers based on actual hours expended on a project. In addition, any direct project expenditures are passed through to the customer and are typically reimbursed.

T&M contracts with an initial ceiling or not-to-exceed price provision are structured the same as T&M, however they typically include an initial price cap that cannot be exceeded. In most cases, the Company can bill additional fees if the project scope is modified or the schedule lengthened.

# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

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(expressed in Canadian dollars)

## *Fixed-price contracts*

Fixed-price contracts typically require the performance of one or more agreed upon obligations at a contractually agreed upon price.

Fixed-unit price contracts typically require the performance of an estimated number of units of work at an agreed price per unit, with the total payment under the contract determined by the actual number of units performed.

- Identification of a contract with a customer

When determining the proper revenue recognition method for contracts, the Company evaluates whether two or more contracts should be combined and accounted for as one single contract and whether the combined or single contract should be accounted for as more than one performance obligation. This evaluation requires significant judgment and the decision to combine a group of contracts or to separate a single contract into multiple performance obligations could affect the amount of revenue and profit recorded in a given period.

The Company accounts for a contract when it has commercial substance, the parties have approved the contract in accordance with customary business practices and are committed to their obligations, the rights of the parties and payment terms are identified and collectibility of consideration is probable.

- Identifying performance obligations in a contract and allocating revenue

For most of the Company's contracts, the customer contracts with the Company to provide a significant service of integrating a complex set of tasks and components into a single project. Consequently, the entire contract is accounted for as one performance obligation. Less frequently, however, the Company may provide several distinct goods or services as part of a contract, in which case the Company separates the contract into more than one performance obligation. If a contract is separated into more than one performance obligation, the total transaction price is allocated to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation. The expected cost plus a margin approach is typically used to estimate the standalone selling price of each performance obligation. To determine the appropriate margin, management considers margins for comparable services under similar contracts in similar markets.

- Determining the transaction price

Variable consideration for fixed-price contracts or T&M contracts with a ceiling, related to change orders approved as to scope but unapproved as to price, is included in estimated revenue to the extent it is highly probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. The Company estimates variable consideration at the most likely amount it expects to be entitled to receive. Estimates of variable consideration are based on historical experience, anticipated performance and management's best judgment based on the information available at the time.

# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

---

(expressed in Canadian dollars)

Contracts are often modified to account for changes in contract specifications and requirements. Contract modifications exist when the change either creates new, or changes existing, enforceable rights and obligations. Most of the Company's contract modifications are for goods or services that are not distinct from the existing contract due to the significant integration service provided in the context of the contract and are accounted for as if they were part of that existing contract. The effect of these contract modifications on the transaction price and the measure of progress for the performance obligation to which it relates is recognized as a cumulative adjustment to revenue as either an increase or decrease in revenue. However, if a contract modification is for distinct goods and services from the existing contract and the pricing of the contract modification reflects the standalone selling pricing of the additional goods or services, then the contract modification is treated as a separate contract.

Due to the nature of many of the Company's performance obligations, the estimation of total revenue and costs at completion is complex, subject to many variables and requires significant judgment. These areas of measurement uncertainty are discussed further in the critical accounting judgments, estimates and assumptions section. Any changes to the estimates of forecasted revenue and total costs are recognized on a cumulative basis, which recognizes in the current period the cumulative effect of the changes based on a performance obligation's percentage of completion. A significant change in one or more of these estimates could affect the profitability of one or more of the Company's performance obligations.

When estimates of total costs to be incurred on a performance obligation exceed the total estimated revenue to be earned, a provision for the entire loss on the performance obligation is recognized in the period the loss is determined.

- Performance obligations satisfied over time

The Company transfers control of goods or services, and satisfies performance obligations, over time. Therefore, the Company recognizes revenue over time as these performance obligations are satisfied. This continuous transfer of control to the customer is often supported by the customer's physical possession or legal title to the work-in-process, as well as contractual clauses that provide the Company with a present right to payment for work performed to date plus a reasonable profit in the event a customer unilaterally terminates the contract for convenience. As a result of control transferring over time, revenue, for fixed-price contracts and T&M contracts with a ceiling, is recognized based on the extent of progress towards completion of the performance obligation. The Company generally uses the cost-to-cost measure of progress for its contracts because it best reflects the transfer of an asset to the customer that occurs as costs are incurred on the contract. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenue, including estimated fees or profits, is recorded proportionally as costs are incurred. Costs to fulfill contracts may include labour, materials, subcontractor and other direct costs, as well as an allocation of indirect costs. The sale of parts directly to customers is the only type of sale where performance obligations are satisfied at a point in time. For these sales, the Company recognizes revenue when control of the goods is transferred to the customer, typically at delivery.

For the Company's T&M contracts without a ceiling, the Company applies the as-invoiced practical expedient, which permits the Company to recognize revenue in the amount to which the Company has the right to invoice for services performed.

# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

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(expressed in Canadian dollars)

- Contract costs

Costs to pursue a contract that would have been incurred regardless of whether the contract was awarded are recognized as an expense when incurred. The Company does not typically incur material contract acquisition costs requiring capitalization.

Certain fulfillment and mobilization costs are deferred when they relate directly to the contract or an anticipated contract and when they generate or enhance Company resources that will be used to satisfy performance obligations in the future. Deferred contract costs are typically amortized over the period of expected benefit using the percentage of completion applied to estimated revenue. The Company does not typically incur upfront fulfillment and mobilization costs.

- Presentation of contract balances

Accounts receivables are amounts billed and currently due from customers. The amounts due are stated at their net estimated realizable value. The Company maintains a credit loss allowance to provide for the estimated amount of receivables that will not be collected in accordance with IFRS 9.

Unbilled revenue represents revenue earned from performance in excess of amounts billed on uncompleted contracts where the right to payment is unconditional. Unbilled revenue typically results from timing differences between satisfaction of a performance obligation where the right to payment is unconditional and invoicing from T&M contracts.

Contract assets arise when the Company satisfies performance obligations but its unconditional right to payment is determined by different contract milestones. Contract assets typically result from sales under fixed-price contracts when the cost-to-cost method of revenue recognition is utilized and revenue recognized exceeds invoicing.

Unbilled revenue and contract assets may not exceed their net realizable value and are classified as current assets. The Company maintains a credit loss allowance for doubtful accounts to provide for the estimated amount of unbilled revenue and contract assets that will not be collected in accordance with IFRS 9.

Contract liabilities represent the excess of amounts billed to customers over revenue earned on uncompleted contracts for which consideration has been received. Contract liabilities are recognized as revenue when (or as) the Company performs under the contract.

Unbilled revenue, contract assets and contracts liabilities are reported on a contract-by-contract basis at the end of each reporting period.

The operating cycle, or duration, for the majority of the Company's contracts is under one year. However, some of the Company's contracts may exceed one year. All contract-related assets and liabilities are classified as current as they are expected to be realized or satisfied within one year from the reporting date.

The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money.

# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

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(expressed in Canadian dollars)

## Financial instruments

Financial instruments are initially measured at fair value. Subsequent to initial recognition, all financial assets, including hybrid contracts, are measured at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) or amortized cost. Financial assets are reclassified between measurement categories only when the business model for managing them changes. All reclassifications are applied prospectively from the reclassification date.

The classification and measurement model requires that all debt instrument financial assets that do not meet a solely payment of principal and interest (SPPI) test to be classified at initial recognition as FVTPL. The SPPI test is conducted to identify whether the contractual cash flows of a financial instrument are solely payments of principal and interest. For debt instrument financial assets that meet the SPPI test, classification at initial recognition is determined based on the business model under which these instruments are managed. Debt instruments that are managed on a held for trading or fair value basis are classified as FVTPL. Debt instruments that are managed on a hold to collect and for sale basis are classified as FVOCI. Debt instruments that are managed on a hold to collect basis are classified as amortized cost.

Impairment of financial assets uses an ECL model. The Company applies this model to its accounts receivable, unbilled revenue and contract assets. ECL allowances represent credit losses that reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.

Under the ECL model, any financial instruments where the borrower has filed for bankruptcy will automatically be considered impaired. Additionally, financial instruments are written off, either partially or in full, against the related allowance for credit losses when there is no realistic prospect of future recovery.

For trade and other receivables, unbilled revenue and contract assets, the Company applies the simplified approach, which requires lifetime ECLs to be recognized from initial recognition. The Company establishes a provision matrix that is based on historical credit losses adjusted for forward-looking factors.

## Government grants

Grants receivable from the government are recognized at their fair value where there is reasonable assurance that the grant will be received and the Company will comply with all attached conditions. Government assistance is recorded as other income in the statements of net earnings and comprehensive income.

## Fair value hierarchy

The Company classifies financial instruments recognized at fair value in accordance with a fair value hierarchy that prioritizes the inputs to the valuation technique used to measure fair value as per IFRS 7, Financial Instruments – Disclosures. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described below:

- level 1 – unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

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(expressed in Canadian dollars)

- level 2 – quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and
- level 3 – prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

## Foreign currency transactions and balances

Foreign currency transactions are translated using the exchange rate prevailing at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at year-end using the closing year-end rate.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities are recognized in the statements of net earnings and comprehensive income.

## Basic and diluted earnings per share

The basic earnings per share is calculated on the basis of net earnings attributable to the shareholders of the Company divided by the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated using the treasury stock method, giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted into common shares.

## 4 New accounting standards

### IFRS 16, Leases

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

#### a) Initial adoption

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

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases that had previously been classified as operating leases under the principles of IAS 17, Leases (IAS 17). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of October 1, 2019 for each asset class. The lessee's incremental borrowing rate applied to the lease liabilities on October 1, 2019 ranged from 2.99% to 5.95%.

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

# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

(expressed in Canadian dollars)

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

- applying a single discount rate to a portfolio of leases with similar characteristics;
- using the Company's previous assessment of impairment under IAS 37, Provisions, Contingent Liabilities and Contingent Assets, for onerous contracts instead of reassessing the right-of-use asset for impairment on October 1, 2019. There were no onerous lease contracts requiring an adjustment to right-of-use asset at the date of initial application;
- excluding initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains terms to extend or terminate the lease.

The associated right-of-use assets for property leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statements of financial position as at October 1, 2019.

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

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

# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

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(expressed in Canadian dollars)

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

Operating lease payments disclosed as at September 30, 2019	1,785,656
Adjustments relating to variable lease payments	(403,026)
Short-term leases exemption	(140,628)
Leases of low-value assets exemption	<u>(123,287)</u>
Undiscounted lease payments	1,118,715
Discount effect at October 1, 2019	(86,816)
Equipment finance leases as at Sept 30, 2019 (note 15)	<u>63,522</u>
Lease liabilities recognized at October 1, 2019	<u>1,095,421</u>
Comprised of:	
Current lease liabilities	417,657
Non-current lease liabilities	<u>677,764</u>
	<u>1,095,421</u>

## b) Policy applicable from October 1, 2019

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

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

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

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone price. However, for leases of real estate for which the Company is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

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

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



# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

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(expressed in Canadian dollars)

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

To determine the incremental borrowing rate, the Company:

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

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

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

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

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

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

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

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

# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

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(expressed in Canadian dollars)

## 5 Future accounting changes

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Company. The Company does not intend to early adopt these standards and is currently evaluating the impact of these new standards on the financial statements.

Management anticipates that all of the relevant pronouncements will be adopted in the Company's accounting policies for the first reporting period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

- IAS 1, Presentation of Financial Statements (IAS 1)

The amendments to IAS 1 provide a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date. The amendments clarify that the classification of liabilities as current or noncurrent should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the right to defer settlement by at least 12 months and make explicit that only rights in place at the end of the reporting period should affect the classification of a liability. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively.

- IFRS 9, Financial Instruments (IFRS 9)

The amendment to IFRS 9 clarifies which fees an entity includes when it applies the 10 per cent test in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf. The amendments are effective for annual periods beginning on or after January 1, 2022.

- IAS 37, Provisions, Contingent Liabilities and Contingent Assets (IAS 37)

The amendments to IAS 37 provide guidance regarding the costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendments specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract and can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The amendments are effective for annual periods beginning on or after January 1, 2022 with comparative figures not restated.

# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

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(expressed in Canadian dollars)

## 6 Accounts receivable

	2020 \$	2019 \$
Trade and other receivables	5,196,859	4,080,005
Credit loss allowance – accounts receivable (note 28)	(408,573)	(240,740)
	<u>4,788,286</u>	<u>3,839,265</u>

## 7 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. The transaction closed on December 19, 2019, resulting in a gain on disposal of \$947,914.

# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

(expressed in Canadian dollars)

## 8 Property and equipment

All of the Company's property and equipment are pledged as security for the bank loans and facilities (notes 12, 14 and 15). Accordingly, there are restrictions on the title of such assets.

						2020
	Computer hardware \$	Field equipment \$	Office furniture and equipment \$	Leasehold improvements \$	Vehicles \$	Total \$
Cost						
Balance – October 1, 2019	263,011	480,386	752,156	92,759	54,872	1,643,184
Impact of change in accounting policy (IFRS 16) (note 4)	(39,722)	-	-	-	(29,089)	(68,811)
Balance – October 1, 2019 (as restated)	223,289	480,386	752,156	92,759	25,783	1,574,373
Additions	28,000	45,912	-	15,200	-	89,112
Disposals	(18,669)	-	-	-	-	(18,669)
Balance – September 30, 2020	232,620	526,298	752,156	107,959	25,783	1,644,816
Accumulated depreciation						
Balance – October 1, 2019	135,594	470,156	739,130	92,759	15,487	1,453,126
Impact of change in accounting policy (IFRS 16) (note 4)	(662)	-	-	-	(5,818)	(6,480)
Balance – October 1, 2019 (as restated)	134,932	470,156	739,130	92,759	9,669	1,446,646
Depreciation	25,431	8,627	6,338	1,520	6,446	48,362
Disposals	(18,669)	-	-	-	-	(18,669)
Balance – September 30, 2020	141,694	478,783	745,468	94,279	16,115	1,476,339
Net book value – Balance – September 30, 2020	90,926	47,515	6,688	13,680	9,668	168,477

# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

(expressed in Canadian dollars)

	2019								
	Land \$	Buildings \$	Computer hardware \$	Field equipment \$	Office furniture and equipment \$	Leasehold improve- ments \$	Paving \$	Vehicles \$	Total \$
Cost									
Balance – October 1, 2018	65,873	1,167,089	2,010,207	480,386	741,299	627,401	26,606	120,908	5,239,769
Additions	-	-	120,012	-	10,857	-	-	29,089	159,958
Disposals	-	-	(1,867,208)	-	-	-	-	(95,125)	(1,962,333)
Reclassified to assets held for sale	(65,873)	(1,167,089)	-	-	-	(534,642)	(26,606)	-	(1,794,210)
Balance – September 30, 2019	-	-	263,011	480,386	752,156	92,759	-	54,872	1,643,184
Accumulated depreciation									
Balance – October 1, 2018	-	1,043,098	1,991,029	457,481	732,140	627,401	26,606	98,348	4,976,103
Depreciation	-	58,354	11,773	12,675	6,990	-	-	12,264	102,056
Disposals	-	-	(1,867,208)	-	-	-	-	(95,125)	(1,962,333)
Reclassified to assets held for sale	-	(1,101,452)	-	-	-	(534,642)	(26,606)	-	(1,662,700)
Balance – September 30, 2019	-	-	135,594	470,156	739,130	92,759	-	15,487	1,453,126
Net book value – Balance – September 30, 2019	-	-	127,417	10,230	13,026	-	-	39,385	190,058

# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

(expressed in Canadian dollars)

## 9 Intangible assets

All of the Company's intangible assets are pledged as security for the bank loans (notes 12 and 15). Accordingly, there are restrictions on the title of such assets.

	<b>2020</b>		
	<b>Computer software \$</b>	<b>Patents \$</b>	<b>Total \$</b>
<b>Cost</b>			
Balance – October 1, 2019	66,130	50,855	116,985
Additions	6,299	-	6,299
Disposals	(37,334)	-	(37,334)
Balance – September 30, 2020	35,095	50,855	85,950
<b>Accumulated amortization</b>			
Balance – October 1, 2019	37,815	28,244	66,059
Amortization	5,760	2,991	8,751
Disposals	(37,334)	-	(37,334)
Balance – September 30, 2020	6,241	31,235	37,476
Net book value – September 30, 2020	28,854	19,620	48,474

	<b>2019</b>					
	<b>Trademarks \$</b>	<b>Computer software \$</b>	<b>Patents \$</b>	<b>Technology \$</b>	<b>Customer lists \$</b>	<b>Total \$</b>
<b>Cost</b>						
Balance – October 1, 2018	222,981	900,942	50,855	258,416	771,150	2,204,344
Additions	-	28,800	-	-	-	28,800
Disposals	(222,981)	(863,612)	-	(258,416)	(771,150)	(2,116,159)
Balance – September 30, 2019	-	66,130	50,855	-	-	116,985
<b>Accumulated amortization</b>						
Balance – October 1, 2018	222,981	900,604	25,253	258,416	771,150	2,178,404
Amortization	-	823	2,991	-	-	3,814
Disposals	(222,981)	(863,612)	-	(258,416)	(771,150)	(2,116,159)
Balance – September 30, 2019	-	37,815	28,244	-	-	66,059
Net book value – September 30, 2019	-	28,315	22,611	-	-	50,926

# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

(expressed in Canadian dollars)

## 10 Right-of-use assets and lease liabilities

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

	<b>Right-of-use assets</b>			
	<b>Offices \$</b>	<b>Vehicles \$</b>	<b>IT equipment \$</b>	<b>Total \$</b>
Balance – October 1, 2019	-	-	-	-
Adoption of IFRS 16 (note 4)	937,290	41,249	109,342	1,087,881
Balance – October 1, 2019 – as restated	937,290	41,249	109,342	1,087,881
Additions	548,251	-	-	548,251
Depreciation	(385,183)	(12,559)	(31,372)	(429,114)
<b>September 30, 2020</b>	<b>1,100,358</b>	<b>28,690</b>	<b>77,970</b>	<b>1,207,018</b>
	<b>Lease liabilities</b>			
	<b>Offices \$</b>	<b>Vehicles \$</b>	<b>IT equipment \$</b>	<b>Total \$</b>
Balance – October 1, 2019	-	-	-	-
Adoption of IFRS 16 (note 4)	943,639	41,778	110,004	1,095,421
Balance – October 1, 2019 – as restated	943,639	41,778	110,004	1,095,421
Additions	525,322	-	-	525,322
Cash interest paid	48,918	1,639	4,454	55,011
Gross payments	(394,159)	(13,611)	(34,319)	(442,089)
<b>September 30, 2020</b>	<b>1,123,720</b>	<b>29,806</b>	<b>80,139</b>	<b>1,233,665</b>
Less: Current portion				<u>500,774</u>
Non-current portion				<u>732,891</u>

# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

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(expressed in Canadian dollars)

As at September 30, 2020, lease liabilities were discounted using the Company's incremental borrowing rate and had weighted-average rates ranging from 2.99% to 5.95%.

Future undiscounted cash outflows for lease liabilities in effect as of October 1, 2019 are disclosed in note- 4. Future undiscounted cash outflows for lease liabilities in effect as of September 30, 2020 are disclosed in note 28.

The Company leases buildings for its office spaces across Canada. Lease terms range from less than one to eight years. To provide operational flexibility, the Company seeks to include extension or termination options in its leases. At the commencement of a lease, the Company assesses whether it is reasonably certain it will exercise the lease extension option (or not exercise a termination option). The Company reassesses this when a significant event or significant change in circumstances within the Company's control has occurred.

The Company leases vehicle and office equipment with terms of three to five years. These leases do not usually contain extension options, purchase options, or residual value guarantees. The Company also leases IT equipment and other equipment with terms of one to five years. These leases are generally short-term or for low-value assets that the Company has elected not to recognize in right-of-use assets and lease liabilities.

<b>Amounts recognized in selling, general and administrative</b>	<b>2020</b>
	<b>\$</b>
Rent expense – variable lease payments	199,766
Expense related to short-term leases	173,881
Expense related to low-value assets	41,349
Income from subleases	(13,490)
	<hr/>
	401,506
	<hr/>

<b>Amounts recognized in the statements of cash flow</b>	<b>2020</b>
	<b>\$</b>
Cash payments for the interest portion of lease liabilities	55,011
Cash payments for leases not included in the measurement of lease liabilities	<hr/>
	401,506
Cash outflow in operating activities	456,517
Cash payments for the principal portion of lease liabilities	<hr/>
	387,078
Total cash flow for leases	<hr/>
	843,595
	<hr/>



# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

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(expressed in Canadian dollars)

## 11 Goodwill

Goodwill is tested for impairment annually or more frequently if events or circumstances indicate that the asset might be impaired in accordance with the policy described in note 3. Goodwill is tested for impairment at the lowest CGU level that goodwill is monitored, which is the company level.

In the three and six-month periods ended March 31, 2020, indicators of impairment were identified that 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. Consequently, the Company assessed goodwill for impairment by comparing the carrying value of the company wide CGU to the recoverable amount, which was determined based on fair value less cost of disposal (FVLCD).

FVLCD was determined using the volume weighted average share price at March 31, 2020 quoted on the TSX-V and multiplying it by the number of shares outstanding, plus net debt and a control premium (Level 3), less estimated cost of disposal (Level 3). The control premium of 30% was determined by reference to premiums in recent acquisitions involving control and from data on empirical control premium studies that considered industry, pricing, background, deal size and timing of the observed premiums. The recoverable amount based on FVLCD was \$6.3 million.

The significant assumptions in determining the recoverable amount using the FVLCD technique are volume weighted average share price and control premium.

If the volume weighted average share price used in the FVLCD model was 10% lower, and all other assumptions held constant, the recoverable amount would be reduced by \$298,227. If the control premium used in the FVLCD calculation was 10% lower, and all other assumptions held constant, then the recoverable amount would be reduced by \$229,406.

Based on management's impairment analysis, it was determined that the carrying amount of the CGU exceeded the recoverable amount and that the full carrying amount of goodwill was impaired. As such, the Company recorded an impairment charge of \$1,592,095 for the year ended September 30, 2020.

## 12 Credit facilities

On July 13, 2020, the Company completed a renegotiation of its banking agreement, which included the composition of the borrowing limit as well as the covenants for its 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.

The fixed charge coverage ratio covenant was suspended for the quarters ended June 30, 2020 and September 30, 2020. Subsequent to year-end on December 17, 2020, the Company negotiated a further change to its covenants that will extend the reinstatement of the fixed charge ratio to the quarter ended December 31, 2021. While this covenant is suspended, the Company will be subject to a minimum four quarter trailing EBITDA covenant. In addition, there were changes made to the basis of calculation and requirement of an existing covenant, which now requires the Company to comply with a senior funded debt to tangible net worth ratio.

# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

---

(expressed in Canadian dollars)

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

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 September 30, 2020, the effective interest rate under this facility was 4.70% (2019 – 6.2%).

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

The Company has certain covenants in accordance with its short-term credit facilities. As at September 30, 2020 and September 30, 2019, the Company was in compliance with all its covenants.

The Company also has a corporate credit card facility in the amount of \$165,000. As at September 30, 2020, the Company had utilized \$68,601 (2019 – \$92,786) against such facility, which is recorded under trade and other payable in the statements of financial position.

## 13 Trade and other payables

	2020 \$	2019 \$
Trade payables	3,532,562	1,499,351
Salaries and benefits payable	827,675	617,306
Other accrued liabilities and payables	933,052	879,325
	<u>5,293,289</u>	<u>2,995,982</u>

As at September 30, 2020, there was \$269,944 (September 30, 2019 – \$9,286) owed to government agencies included in other accrued liabilities and payables.

## 14 Demand loan

On December 19, 2019, the Company closed the sale of its office building at 3108 Carp Road in Ottawa (note 7). The sale included all assets used as security for the demand loan. The proceeds from the sale were used to extinguish the Company's demand loan. Unamortized deferred financing costs of \$23,948 attributed to the demand loan were expensed to the statements of net earnings and comprehensive income on the closing date.

# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

(expressed in Canadian dollars)

## 15 Long-term debt

	2020 \$	2019 \$
Term loan, net of deferred financing costs of \$11,157 (September 30, 2019 – \$22,314), bearing interest at 10% <sup>(a)</sup>	2,453,843	2,477,686
Restructured trade debt <sup>(b)</sup>	164,656	218,756
Finance leases (note 4)	-	63,522
	<u>2,618,499</u>	<u>2,759,964</u>
Less: Current portion	<u>2,453,843</u>	<u>64,797</u>
	<u>164,656</u>	<u>2,695,167</u>

- a) The Company entered into an agreement with a lending institution on September 12, 2016, for a secured five-year term loan in the amount of \$2,500,000. This loan bears interest at a rate of 10% and requires the Company to pay royalty fees on gross revenue beginning February 2018. The royalty rate is tiered and applies at a rate of 0.35% of gross revenue up to \$38,000,000, and then decreases to 0.15% of gross revenue in excess of that amount. As at September 30, 2020, \$100,175 (2019 – \$98,883) was accrued in trade and other payables with respect to these royalties.

On August 24, 2020, the Company completed an amendment to the repayment terms of the term loan. Commencing September 15, 2020, the Company is repaying \$35,000 of principal on a monthly basis, with a balloon payment of \$2,115,000 on August 15, 2021. Since the term loan is scheduled to mature in less than 12 months, the entire amount has been included in the current portion of long-term debt. The Company is in negotiations with potential lenders and, subsequent to September 30, 2020, has received a non-binding offer to refinance its term loan in advance of the August 15, 2021 maturity date.

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 September 30, 2020 and September 30, 2019, the Company was in compliance with all its covenants.

- b) On November 15, 2012, the Company reached an agreement with a number of creditors with respect to repayment terms for outstanding amounts payable. The agreement required the Company to repay this amount on a monthly basis, with blended payments of principal and interest. As at September 30, 2020, \$164,656 is postponed in favour of the Company's current lender (2019 – \$164,656).

Long-term debt balances as at September 30, 2020 are due as follows:

	\$
2021	2,453,843
2022 - 2024	-
2025 and thereafter	<u>164,656</u>
	<u>2,618,499</u>

# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

---

(expressed in Canadian dollars)

The movements in net debt for the year ended September 30, 2020 are presented below:

	Cash \$	Long-term debt \$	Demand loan \$	Total \$
Balance as at October 1, 2019	243,098	(2,759,964)	(901,052)	(3,417,918)
Adoption of IFRS 16 (note 4)	-	63,522	-	63,522
Cash flows	2,226,904	89,100	925,000	3,241,004
Amortization of deferred finance costs	-	(11,157)	(23,948)	(35,105)
Balance as at September 30, 2020	<u>2,470,002</u>	<u>(2,618,499)</u>	<u>-</u>	<u>(148,497)</u>

## 16 Advances

As at September 30, 2020, advances of \$50,000 (2019 – \$50,000) are owed to shareholders and bear interest at a rate of 7%. These amounts are postponed in favour of the Company's lenders. Interest on advances outstanding has not been postponed.

## 17 Due to shareholders

As at September 30, 2020, the Company had amounts due to shareholders of \$16,638 (2019 – \$16,638), which are non-interest bearing. These amounts are postponed in favour of the Company's bank.

## 18 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.

# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

(expressed in Canadian dollars)

## Share options

Activity in the share option plan is summarized as follows:

	2020		2019	
	Number of options #	Weighted average exercise price \$	Number of options #	Weighted average exercise price \$
Outstanding – Beginning of year	1,050,000	0.25	1,642,875	0.35
Granted	40,000	0.08	80,000	0.22
Expired	(120,000)	0.32	(672,875)	0.50
Forfeited	-	-	-	-
Outstanding – End of year	970,000	0.24	1,050,000	0.25
Exercisable – End of year	723,333	0.24	576,667	0.22

Information about share options outstanding as at September 30, 2020 is as follows:

Grant price range	Awards outstanding			Awards exercisable		
	Quantity	Remaining contractual life	Exercise price \$	Quantity	Remaining contractual life	Exercise price \$
0.08 - 0.10	40,000	4.48	0.08	-	-	-
0.11 - 0.20	70,000	0.50	0.20	70,000	0.50	0.20
0.21 - 0.28	860,000	1.94	0.25	653,333	1.73	0.25
	970,000	1.94	0.24	723,333	1.61	0.24

## Share-based compensation

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

During the year ended September 30, 2020, the Company issued 40,000 (2019 – 80,000) options to directors to purchase common shares. The exercise price of the options is \$0.08 (2019 – \$0.22). Of the options granted, 40,000 vest over one year. All have a term of five years. The fair value of options granted during the year was \$1,840 (2019 – \$11,356) resulting in a weighted average grant date fair value of \$0.05 per option (2019 – \$0.14).

# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

(expressed in Canadian dollars)

The fair value of options granted was estimated on the date of grant using the following assumptions:

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Exercise price	0.08	0.22
Price of underlying share	0.08	0.22
Expected volatility	93%	97%
Expected option life (years)	3.61	3.54
Expected dividends	-	-
Risk-free interest rate	0.72%	1.44%

During the year ended September 30, 2020, the Company recognized \$15,353 (2019 – \$43,449) in share-based compensation expense.

## 19 Income taxes

The provision for income taxes differs from the result that would be obtained by applying the combined Canadian federal and provincial statutory income tax rates to earnings before income taxes. The reconciliation between the statutory income tax rate and the Company's effective rate of income tax is as follows:

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Earnings before income taxes	1,201,978	479,207
Statutory tax rate	26.50%	26.51%
Expected income tax expense	318,524	127,038
Changes in temporary differences	5,186	(4,527)
Permanent differences	367,416	21,826
Prior period adjustments	39,393	(16,048)
Income tax expense	730,519	128,289
Effective income tax rate	60.78%	26.77%

The following shows the components of income tax expense:

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Current tax expense	35,499	172,000
Deferred tax expense (recovery)	695,020	(43,711)
Income tax expense	730,519	128,289

# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

(expressed in Canadian dollars)

The following is a reconciliation of the deferred income tax assets and (liabilities) recognized by the Company:

	<b>2020</b>			
	<b>Balance – Beginning of year \$</b>	<b>Recognized in earnings \$</b>	<b>Equity component \$</b>	<b>Balance – End of year \$</b>
Property and equipment	335,068	(123,873)	-	211,195
Non-capital losses	1,148,520	(639,822)	-	508,698
Capital losses	2,780	(2,780)	-	-
Research and development expenses	660,425	(29,302)	-	631,123
Federal ITCs	(30,523)	21,847	-	(8,676)
Reserves	34,287	79,622	-	113,909
Financing cost	8,772	(7,774)	-	998
Other	-	7,062	-	7,062
	<b>2,159,329</b>	<b>(695,020)</b>	<b>-</b>	<b>1,464,309</b>
	<b>2019</b>			
	<b>Balance – Beginning of year \$</b>	<b>Recognized in earnings \$</b>	<b>Equity component \$</b>	<b>Balance – End of year \$</b>
Property and equipment	296,136	38,932	-	335,068
Non-capital losses	1,150,324	(1,804)	-	1,148,520
Capital losses	18,662	(15,882)	-	2,780
Research and development expenses	660,993	(568)	-	660,425
Federal ITCs	(22,812)	(7,711)	-	(30,523)
Reserves	6,631	27,656	-	34,287
Financing cost	5,684	3,088	-	8,772
Other	-	(2,924)	2,924	-
	<b>2,115,618</b>	<b>40,787</b>	<b>2,924</b>	<b>2,159,329</b>

The amount and timing of reversals of temporary differences will be dependent on, among other things, the Company's future operating results, and acquisitions and dispositions of assets and liabilities. Legislative changes in tax rates could materially affect the Company's estimate of deferred income taxes.

# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

(expressed in Canadian dollars)

The Company has the following non-capital losses for which it has recognized a deferred tax asset in the statements of financial position. These non-capital losses are available to reduce income taxes payable in future periods and can be carried to the following years:

	\$
2034	991,459
2033	<u>966,167</u>
	<u>1,957,626</u>

As at September 30, 2020, the Company had an investment tax credit in the amount of \$662,619 (2019 – \$677,468), of which \$nil (2019 – \$nil) was recorded as an income tax receivable in the statements of financial position. This credit can be used against any federal income tax payable and expires in the years 2026 to 2032.

As at September 30, 2020, the Company had an Ontario investment tax credit of \$nil (2019 – \$7,436). In the prior year, \$nil was recorded as an income tax receivable in the statements of financial position.

## 20 Other expense items

	2020 \$	2019 \$
Personnel	12,951,146	13,317,938
Materials	11,192,292	10,895,730
Consulting	38,398	111,080
Sub-contractors	56,473	70,766
Depreciation and amortization	486,227	105,870
Other operating expense	<u>2,704,285</u>	<u>2,788,827</u>
	<u>27,428,821</u>	<u>27,290,211</u>
<b>Reported as:</b>		
Cost of sales	22,498,053	22,390,468
Selling, general and administrative	<u>4,930,768</u>	<u>4,899,743</u>
	<u>27,428,821</u>	<u>27,290,211</u>
Finance costs		
Interest on restructured debt	16,240	17,751
Interest on term loan and bank loans	398,634	418,915
Bank charges	24,182	31,704
Interest on leases (IFRS 16)	58,389	-
Other finance charges	<u>10,431</u>	<u>14,442</u>
	<u>507,876</u>	<u>482,812</u>



# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

(expressed in Canadian dollars)

## 21 Earnings per share

	2020 \$	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	16,261	-
Weighted average number of diluted common shares	28,691,956	28,675,695

Options that were anti-dilutive are not included in the computation of diluted common shares. For the year ended September 30, 2020, 953,739 were excluded from the calculation because they were anti-dilutive (2019 – 1,050,000).

## 22 Changes in working capital balances

	2020 \$	2019 \$
Accounts receivable	(1,337,917)	1,378,984
Unbilled revenue	(104,112)	1,949,649
Contract assets	(1,068,317)	(1,383,409)
Prepaid expenses	31,192	190,192
Trade and other payables	2,321,468	(626,810)
Contract liabilities	88,442	(182,866)
	(69,244)	1,325,740

## 23 Commitments and contingencies

Future payments required under operating leases that have initial or remaining lease terms in excess of one year as at September 30, 2020 are as follows:

	Premises \$	Equipment \$	Total \$
Within one year	135,829	42,876	178,705
Between two and five years	-	81,192	81,192
	135,829	124,068	259,897

# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

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(expressed in Canadian dollars)

The Company has various lease commitments included in lease liabilities that are considered low value assets or short-term leases (note 10). There are no options to purchase at the expiry of the lease period.

In the normal course of business, the Company is party to a number of ongoing legal claims. The success of these claims is assessed as not likely or remote. The Company believes its existing insurance coverage is sufficient to mitigate its exposure. However, the extent of coverage cannot be predicted with certainty. The Company's status in all claims is monitored closely by management and changes in that status, if any, are recorded in the period when the change triggering the recognition of a liability is known.

## 24 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:

	2020 \$	2019 \$
Canada	28,372,901	27,889,511
Other countries	248,432	362,719
	<u>28,621,333</u>	<u>28,252,230</u>

For the year ended September 30, 2020, approximately 40% of revenue (2019 – 47%) was derived from three customers, two 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).

# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

(expressed in Canadian dollars)

## 25 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:

	<b>2020</b>		
	<b>\$</b>		
	<b>Fixed price</b>	<b>Time and</b>	<b>Total</b>
	<b>\$</b>	<b>materials</b>	<b>\$</b>
		<b>\$</b>	
Commercial and industrial	2,333,952	6,192,262	8,526,214
Government	3,884,144	3,162,931	7,047,075
Military	2,318,993	4,873,344	7,192,337
Mining	1,186,597	4,669,110	5,855,707
	<b>9,723,686</b>	<b>18,897,647</b>	<b>28,621,333</b>
			<b>2019</b>
			<b>\$</b>
	<b>Fixed price</b>	<b>Time and</b>	<b>Total</b>
	<b>\$</b>	<b>materials</b>	<b>\$</b>
		<b>\$</b>	
Commercial and industrial	2,008,716	6,935,486	8,944,202
Government	2,517,539	3,063,228	5,580,767
Military	1,692,870	6,367,922	8,060,792
Mining	1,150,274	4,516,195	5,666,469
	<b>7,369,399</b>	<b>20,882,831</b>	<b>28,252,230</b>

Revenue from the vast majority of the Company's contracts is recognized over time because of the continuous transfer of control to the customer. For the year ended September 30, 2020, \$488,587 or 2% (2019 – \$379,163 or 1%) was recognized at a point in time, which primarily related to mining sector customers.

# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

(expressed in Canadian dollars)

## Contract balances

The following table provides information about receivables, unbilled receivables, contract assets and contract liabilities related to contracts with customers:

	2020 \$	2019 \$
Trade receivables	4,788,286	3,839,265
Unbilled revenue	2,770,720	2,666,608
Contract assets	2,451,726	1,383,409
Contract liabilities	(228,825)	(140,383)
	<u>9,781,907</u>	<u>7,748,899</u>

Revenue recognized in the year ended September 30, 2020 and included in contract liabilities as at September 30, 2019 was \$140,383.

## Remaining performance obligations

Backlog (i.e., remaining performance obligations) means the total value of work that has not yet been completed that has a high certainty of being performed as a result of the existence of an executed contract or work order specifying job scope, value and timing.

The Company does not report as backlog the significant number of contracts and arrangements in hand where the exact amount of work to be performed cannot be reliably quantified or where a minimum number of units at the contract specified price per unit is not guaranteed. As such, the Company's anticipated future work to be performed at any given time is greater than what is reported as backlog.

The aggregate amount of estimated revenue related to performance obligations that are unsatisfied (or partially unsatisfied) as at September 30, 2020, was \$4.4 million (2019 – \$4.3 million). The Company expects to recognize approximately 84% (2019 – 43%) of this revenue as contracts are completed over the next 12 months, with the remainder thereafter. Subsequent to September 30, 2020, the Company received approval to begin work on a \$2.2 million option that exists under an existing project, increasing the expected backlog to \$6.6 million.

	2020 \$	2019 \$
Next 12 months	3,666,464	1,826,100
Next 13 – 24 months	467,600	1,943,325
Beyond	250,000	521,557
	<u>4,384,064</u>	<u>4,290,982</u>

# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

(expressed in Canadian dollars)

## 26 Related party transactions

### Compensation of key management personnel

The remuneration of key management personnel, including directors, during the year was as follows:

	2020 \$	2019 \$
Salaries	1,026,931	1,040,033
Short-term benefits	102,800	104,563
Share-based compensation	15,353	43,449
	<u>1,145,084</u>	<u>1,188,045</u>

For the period ended September 30, 2020, amounts owing to related parties recorded in the statements of financial position were \$nil (2019 – \$nil).

## 27 Financial instruments

The following table summarizes information regarding the carrying values of the Company's financial instruments (except lease liabilities):

Instrument	Measurement	2020		2019	
		Carrying value \$	Fair value \$	Carrying value \$	Fair value \$
Assets					
Cash	amortized cost	2,470,002	2,470,002	243,098	243,098
Accounts receivable	amortized cost	4,788,286	4,788,286	3,839,265	3,839,265
Unbilled revenue	amortized cost	2,770,720	2,770,720	2,666,608	2,666,608
		<u>10,029,008</u>	<u>10,029,008</u>	<u>6,748,971</u>	<u>6,748,971</u>
Liabilities					
Trade and other payables	amortized cost	5,293,289	5,293,289	2,995,982	2,995,982
Demand loan	amortized cost	-	-	901,052	901,052
Long-term debt	amortized cost	2,618,499	2,630,458	2,759,964	2,690,591
Advances	amortized cost	50,000	50,516	50,000	47,521
Due to shareholders	amortized cost	16,638	16,638	16,638	16,638
		<u>7,978,426</u>	<u>7,990,901</u>	<u>6,723,636</u>	<u>6,651,784</u>

# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

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(expressed in Canadian dollars)

The fair value measurements for all the financial instruments of the Company have been categorized as Level 3. No transfers were noted between the fair value hierarchy of the financial instruments during the current year and prior year.

## 28 Risk management

The Company is exposed to various risks in relation to its financial instruments. The Company's financial assets and liabilities by category are summarized below. The main types of risk are credit risk, market risk and liquidity risk.

The Company's risk management is coordinated in close cooperation with the Board of Directors, and focuses on actively securing the Company's short to medium-term cash flows by minimizing the exposure to financial markets.

The Company does not actively engage in the trading of financial instruments for speculative purposes.

### Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its obligations. Credit risk associated with the Company's cash is assessed with reference to external credit ratings, which, in all cases, are above investment grade. The primary financial instruments that potentially expose the Company to credit risk are accounts receivable, unbilled revenue and contract assets.

The Company has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks. The Company performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectibility of its receivables in order to mitigate any possible credit losses.

The Company's management considers all financial assets that are not impaired or past due for each of the September 30, 2020 and September 30, 2019 reporting dates to be of good credit quality.

At the end of the year, five customers (2019 – five customers) accounted for 58% (2019 – 39%) of accounts receivable.

The Company applies the simplified approach to customer contract related receivables and recognizes a loss allowance based on lifetime ECL. Trade receivables, unbilled revenues and contract assets have been grouped based on shared credit risk characteristics and the days past due. Therefore, expected loss rates for trade receivables are a reasonable approximation of the loss rates for unbilled revenue and contract assets. The loss allowance is based on the Company's historical collection and loss experience over the past four years and incorporates forward-looking factors, where appropriate. Management has determined that the probability of default on government customers, based on the history of default, is minimal and therefore did not result in the recognition of an ECL on such balances. The loss allowance for trade receivables, unbilled revenue and contract assets (excluding government customers) as at September 30, 2020 and September 30, 2019 is determined as follows:

# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

(expressed in Canadian dollars)

								September 30, 2020
	Current	1 to 30 days past due	31 to 60 days past due	61 to 90 days past due	91 to 120 days past due	121 to 180 days past due	More than 180 days past due	Total \$
Expected loss rate	1.65%	1.33%	3.52%	2.41%	67.19%	58.18%	89.06%	-
Gross carrying amount	4,697,320	774,743	195,981	128,189	72,081	450,262	55,232	6,373,808
Loss allowance	77,506	10,304	6,899	3,089	48,431	261,962	49,190	457,381

  

								September 30, 2019
	Current	1 to 30 days past due	31 to 60 days past due	61 to 90 days past due	91 to 120 days past due	121 to 180 days past due	More than 180 days past due	Total \$
Expected loss rate	2.18%	1.77%	4.70%	2.27%	10.97%	33.48%	73.23%	-
Gross carrying amount	3,452,930	776,422	205,581	77,603	296,802	105,937	168,521	5,083,796
Loss allowance	75,274	13,743	9,662	1,762	32,559	35,468	123,408	291,876

The closing loss allowance for trade receivables, unbilled revenue and contracts assets as at September 30, 2020 reconcile to the opening loss allowance as follows:

			2020
	Trade receivables \$	Contract assets \$	Unbilled revenue \$
Opening balance – calculated under IFRS 9	240,741	21,594	29,541
Increase in loss allowance	391,223	10,088	(12,415)
Recoveries	(565)	-	-
Accounts written off as uncollectible	(222,826)	-	-
Balance – End of year	408,573	31,682	17,126

# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

(expressed in Canadian dollars)

	<b>2019</b>		
	<b>Trade receivables \$</b>	<b>Contract assets \$</b>	<b>Unbilled revenue \$</b>
Opening balance – calculated under IAS 39	429,055	-	-
Amounts restated through opening retained earnings	(9,784)	18,110	34,813
Opening balance – calculated under IFRS 9	419,271	18,110	34,813
Increase in loss allowance	90,841	3,484	(5,272)
Recoveries	(84,373)	-	-
Accounts written off as uncollectible	(184,998)	-	-
Balance – End of year	240,741	21,594	29,541

Trade receivables, unbilled revenue and contract assets are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, among others, the failure of a debtor to engage in a repayment plan with the Company or to make contractual payments for a period of greater than 365 days past the due date.

## 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 year ended September 30, 2020, the Company had the following balances available on its credit facilities: operating demand loan – \$2,500,000; and credit card facility – \$68,601. 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 September 30, 2020, the Company had approximately \$5.0 million in availability between its operating line and its cash balances.

The Company's five-year term loan (\$2.5 million as at September 30, 2020) matures on August 15, 2021. Based on monthly repayments being made since September 15, 2020, the balloon payment required on maturity will be \$2.1 million. The Company is in negotiations with potential lenders to refinance this term loan and has received a non-binding offer subsequent to year-end. 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.



# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

(expressed in Canadian dollars)

The following table outlines the liquidity risk associated with the Company's undiscounted payment obligations as at September 30, 2020 and September 30, 2019, respectively.

	<b>2020</b>				
	<b>Less than 1 year \$</b>	<b>1 – 5 years \$</b>	<b>Total undiscou- nted cash flows \$</b>	<b>Effect of interest \$</b>	<b>Carrying value<sup>1</sup> \$</b>
Trade and other payables	5,268,289	25,000	5,293,289	-	5,293,289
Lease liabilities (IFRS 16)	560,176	773,760	1,333,936	100,271	1,233,665
Long-term debt	2,689,616	232,143	2,921,759	292,103	2,629,656
Advances	3,500	64,000	67,500	17,500	50,000
Due to shareholders	-	16,638	16,638	-	16,638
	<b>8,521,581</b>	<b>1,111,541</b>	<b>9,633,122</b>	<b>409,874</b>	<b>9,223,248</b>

<sup>1</sup> Long-term debt is stated on a gross basis of \$2,465,000 rather than net of deferred financing fees.

	<b>2019</b>				
	<b>Less than 1 year \$</b>	<b>1 – 5 years \$</b>	<b>Total undiscou- nted cash flows \$</b>	<b>Effect of interest \$</b>	<b>Carrying value<sup>2</sup> \$</b>
Trade and other payables	2,955,610	40,372	2,995,982	-	2,995,982
Finance leases (IAS 17)	15,782	56,460	72,242	8,720	63,522
Demand loan	925,000	-	925,000	-	925,000
Long-term debt	318,918	2,966,003	3,284,921	566,165	2,718,756
Advances	3,500	64,000	67,500	17,500	50,000
Due to shareholders	-	16,638	16,638	-	16,638
	<b>4,218,810</b>	<b>3,143,473</b>	<b>7,362,283</b>	<b>592,385</b>	<b>6,769,898</b>

<sup>2</sup> Long-term debt and demand loan are stated on a gross basis of \$2,500,000 and \$925,000, respectively, rather than net of deferred financing fees.

## Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's net earnings or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

# BluMetric Environmental Inc.

Notes to Financial Statements

September 30, 2020 and 2019

(expressed in Canadian dollars)

- Interest rate risk

Interest rate risk is the risk the fair value or future cash flows of financial instruments will fluctuate because of changes in interest rates. As at September 30, 2020, the Company had its demand loan that is a floating rate obligation. A 1% increase in interest rates during the reporting period would decrease net earnings and equity for the period by approximately \$3,000 (2019 – \$13,000).

- Foreign currency risk

Currency risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in currency exchange rates.

The Company operates internationally and is therefore subject to foreign currency risk. The table below shows the Company's cash and financial instruments held in US dollars and their Canadian dollar equivalents.

	2020		2019	
	CA \$	US \$	CA \$	US \$
Accounts receivable	8,452	6,337	112,231	84,747
Bank indebtedness	(5,331)	(3,997)	(77,055)	(58,186)
Trade and other payables	(170,520)	(127,836)	(19,292)	(14,568)

The Company incurs expenses and earns revenue in Canadian and US dollars. To date the Company has not used foreign currency forward contracts or other hedging strategies to manage its foreign currency exposure.

A 10% strengthening of the US dollar against the Canadian dollar would have increased the net earnings and increased equity during the reporting period by approximately \$18,430 (2019 – \$2,000).

## 29 Capital management

The Company's objective is to maintain a capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management defines capital as comprising the Company's total shareholders' equity, credit facilities, advances and long-term debt. In order to maintain or adjust its capital structure, the Company may issue or repurchase share capital, or obtain or reduce long-term debt. To date, no dividends have been paid to the Company's shareholders.