

# **Management Discussion & Analysis**

**Financial Quarters Ended  
March 31, 2018 and  
March 31, 2017**  
(expressed in Canadian Dollars)



May 30, 2018

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This Management Discussion and Analysis "MD&A" explains the material changes in BluMetric's financial condition and results of operations for the quarter ended March 31, 2018. The MD&A should be read in conjunction with the Company's consolidated condensed interim financial statements and related notes for the three months ended March 31, 2018 as well as the MD&A and audited consolidated financial statements and notes for the year ended September 30, 2017. The information provided in this document is not intended to be a comprehensive review of all matters concerning the Company.

This discussion and analysis of the financial condition and the results of operations contain forward-looking statements about expected future events and the financial and operating performance of the Company. These statements, which include descriptions of the Company's business strategy, potential variances impacting the Company's internal and external performance drivers, and the Company's ability to meet its ongoing working capital needs through the ensuing 12 months, are included in the "Discussion of Results and Financial Condition for the Quarter Ended March 31, 2018", "Liquidity", and "Business Outlook" sections which follow. These statements are not guarantees of future performance and are subject to risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. This MD&A also makes reference to certain non-IFRS measures to assist users in assessing BluMetric's performance. Non-IFRS measures do not have any standard meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. These measures are identified and described under the section "Financial Terms and Definitions".

## **Business Overview and Strategy**

In 1977, BluMetric started by providing water and soil assessment services to its clients, primarily in the land development market. For over forty years, BluMetric, a Canadian company, has provided cost-effective and sustainable solutions to help its clients overcome their most difficult water related environmental and business challenges. The Company has evolved into a broad spectrum environmental solution provider setting a standard of care that follows water from its source to its return to the environment. BluMetric's strategy is to deliver a product, service or system that helps its clients successfully manage their water related environmental, health, and safety responsibilities. By building partnerships with its customers, BluMetric provides a long-term holistic approach to water management, differentiating itself from competitors that simply provide a single service or product.

BluMetric focusses its efforts in North America, a geographic region with significant growth potential in markets where BluMetric has had its greatest success. Operating from ten offices in North America, the Company has served hundreds of clients from the Panama Canal to the Arctic Circle. The business continues to stabilize and focus on value-added solutions for target industries and clients. In order to stay competitive, the Company will continue to develop strategic alliances and search for cutting-edge technologies that provide better products and services.

The BluMetric team of experts consists of highly experienced and motivated scientists, environmental specialists, engineers, occupational and industrial hygienists, environmental auditors, project managers, financial specialists, and support personnel.

## **Technology and Innovation**

Innovation is driven by client demands as they face more stringent environmental regulations or the emergence of a previously unknown contaminant. Finding a solution for a specific problem is a creative process that helps differentiate BluMetric from its competitors. Creating a commercial product that caters to those needs in the marketplace is innovative. A commercial product must satisfy the scientific aspect of the problem, but to be economically viable it must fill a significant demand in the marketplace. All potential new products or technologies go through a stage gate process to confirm the technology works and the potential market is of sufficient size to provide a return on investment. The following products and technologies have been evaluated in light of these requirements.

**Ammonia Removal** – BluMetric's previous (Q1 FY2017) MD&A discussed the problems associated with surplus ammonia in the environment and the resulting regulatory and political pressure. These problems have persisted in 2018 and there is continued and increased interest in BluMetric's patented ammonia removal systems (MARS).

MARS is the Company's primary ammonia removal system. This membrane-based system reduces ammonia by direct absorption. The design can cut capital costs of a traditional treatment plant by 40% and the operating costs are 50% lower than a standard activated sludge plant of comparable size. These potential savings differentiates BluMetric from its competitors.

Subsequent to pilot tests in 2017 and early 2018, BluMetric secured several contracts for the provision of MARS systems in Canada and the US. Installation of two of these systems was completed in Q2 and commissioning is nearing completion. Also during the quarter, BluMetric's advanced trailer mounted MARS pilot unit was fully engaged in successive pilot tests at landfill and mine sites. Data generated by the installed and pilot systems will be used to foster additional contracts in the mining, leachate, and food processing markets.

**Wastewater Treatment** - As stated in the previous MD&A, the Company's MARS, CR3 and VDR patent applications were recently consolidated to encompass all three technologies. These interlocking patents strengthen BluMetric's position and afford greater coverage. Existing trademarks will continue to be protected with additional applications for trademark protection.

The commercialization of these products is an ongoing process as client needs and field data allow BluMetric to fine tune the product and properly train its employees.

The commercialization of these products has the following advantages:

- Streamlines the quotation process
- Reduces the reliance on engineering for the development of budget proposals
- Increases the accuracy of the costing process
- Provides an efficient platform for sales training
- Delivers a concise and credible presentation to potential clients

**Cyanide** – In late 2016 mining regulators changed the cyanide limits for the effluent exiting the tailings ponds and mining facilities. In close association with the Company's technology partners and NRC/NRCAN, BluMetric tested a new treatment process and based on the results, a patent application has been generated. The process and patent application was refined and submitted in Q1. This cyanide treatment system was incorporated into BluMetric's trailer mounted pilot and tested at two mine sites with positive results.

**Continuing Research** - BluMetric continues to pursue new opportunities by conducting scientific research on various processes, economic research on the potential market size, and regulatory and political research on the market drivers. The following represent the three most critical endeavours for 2018.

1. Emerging Contaminants - BluMetric has developed a method to remove PFOA, PFOS, and other emerging contaminants and suspected carcinogens, from contaminated groundwater. This technology was also incorporated in BluMetric's pilot trailer and will be tested at several sites scheduled in Q3.

2. Acid Mine Drainage and zero liquid discharge - A full scale pilot, with a technology partner in the oil, gas, and mining sector, was completed in Q3 of fiscal year 2017 and came on line in Q4 of fiscal year 2017. The second full-scale pilot was nearing completion at the end of Q2 of fiscal year 2018.

3. Enhanced Primary Treatment – EPT is an array of developing innovative products that reduce the load to the treatment plant by intercepting, removing, and recovering thermal and organic energy from wastewater.

BluMetric will continue to foster and develop strategic partnerships where these alliances either augment the Company's technologies or expand the Company's geographic reach.

## **Sales and Marketing**

BluMetric has returned to its business development strategy that has made it successful in the past. The Company continues to balance its capacity for innovation and forward-thinking with a time tested client-centric approach that involves an emphasis on understanding clients' environmental issues and the prevention of problems. As well, BluMetric has narrowed its business development focus to key markets where it offers the deepest skill sets.

Satisfied clients provide repeat business as well as incredibly valuable word-of-mouth advertising to allied companies. The Company's sales approach continues to evolve with innovative products, channel-to-market reps, technology based partnerships, and license agreements.

In North America the focus is on these key markets:

- Mining
- Food and Beverage
- Commercial and Industrial Wastewater
- Military
- Government (with specific expertise in Northern Canada)

Mining - Historically most of BluMetric's work in the mining sector has been at existing operations; however, in late 2017 and early 2018 the Company experienced increased exposure to greenfield mining projects. As examples, the Company has been retained by a major base metals company to provide environmental permitting support for a proposed new mine in Northern Ontario, and is currently preparing the environmental chapter for a feasibility study for a proposed gold mine in northern Manitoba. The Company has also secured a number of mining contracts focusing on engineering and detailed design of remedial solutions and care and maintenance of closed mining facilities. The opening of a new office in Thunder Bay and the securing of a significant three year contract is a launching point for further business development and growth in the region. As well, BluMetric is seeing a significant amount of interest in mine water treatment solutions from mine developers. The Company's consulting experience, relationships with mine development consultants and experience providing mine water treatment systems for new and existing mines puts it in a good position to take advantage of the next growth cycle in new mine developments.

Food & Beverage – Activity in this market in Q2 remained strong in Ontario. BluMetric's systems are well suited to treat the varied wastewater streams generated from the production of snack foods, dairy products, processed meats, beer, and soft drinks. The COBRA and VDR systems are competitive due to their smaller footprint and lower capital investment, but their most attractive characteristic is their lower operating cost.

Government (North) - Sales effort for this division are led by a team, primarily out of the Kingston office, experienced in the logistical details required for Northern work. During Q2 several large projects were undertaken in the Arctic that required a large degree of coordination and specialty knowledge to complete under challenging weather conditions.

These projects included:

- Installation of a satellite telemetry based system that allows for real time monitoring and observation of remediation sites located in extremely remote locations. This represents the deployment of new equipment and cutting edge technology previously not deployed to such remote locations. Great potential is anticipated in this area.
- The inventory, packing and collection of chemical and hazardous materials across Nunavut, Significant experience, knowledge, logistics and coordination were required to facilitate the safe and efficient withdrawal of these dangerous substances from all communities.

## **Board of Directors**

The Board of Directors currently consists of six members, four of whom are independent. The independent directors reflect a wide range of senior experience in the management of publicly traded and privately held companies. The Board members have expertise in finance, operations, management, and governance for environmental companies, as well as other enterprises.

## **Executive Management**

The Senior Management team comprises: Scott MacFabe, Chief Operating Officer, who began on March 1, 2018; Vivian Karaiskos, Chief Financial Officer; Dan Scroggins, Senior Vice President, Research and Innovations and Interim Chief Executive Officer; and Tim Beckenham, Senior Director, Consulting Services.

This team is supported by well-qualified and experienced managers that lead business development, production, health and safety, operations and every other aspect of the corporation.

## **Our People**

The BluMetric team consists of approximately 165 experienced environmental professionals. They are experts in providing a comprehensive range of water related environmental services and engineered solutions, from contaminated site assessment and remediation to complete turn-key wastewater treatment systems.

Staffing levels fluctuate seasonally with the hiring of contract staff and students to meet peak demand periods. The Company strives to recruit and retain highly skilled employees who are able to use their technical expertise to deliver creative solutions. BluMetric's employees are the Company's greatest asset.

## **Diversity**

Diversity is inherent at BluMetric. BluMetric offices stretch from San Salvador to Yellowknife and its staff speak fourteen different languages and come from a wide range of cultural, ethnic, educational, religious, and political backgrounds. Women represent 45% of the workforce from welders and field service technicians to the top members of the executive team and Board of Directors.

In physics, strength comes from uniformity, but in business strength comes from diversity. BluMetric's goal is to capitalize on that strength while affording the team members the greatest opportunity to excel, grow, and contribute to business and society.

## Results of Operations

	Three Months Ended				Six Months Ended			
	Mar 31, 2018	Mar 31, 2017	Change	Change	Mar 31, 2018	Mar 31, 2017	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
Revenue	7,707,753	7,218,939	488,814	7%	15,267,710	15,507,404	(239,694)	-2%
Gross profit	1,616,291	1,603,605	12,686	1%	3,287,740	3,300,319	(12,579)	0%
Gross margin %	21%	22%			22%	21%		
Operating Costs	1,311,381	1,348,775	(37,394)	-3%	2,733,708	2,628,856	104,852	4%
EBITDA <sup>1</sup>	324,804	353,094	(28,290)	-8%	625,403	867,998	(242,595)	-28%
Adjusted EBITDA <sup>2</sup>	341,089	360,474	(19,385)	-5%	643,783	840,728	(196,945)	-23%
Net earnings	168,881	89,778	79,103	88%	269,395	318,242	(48,847)	-15%
Common shares outstanding	28,391,778	27,880,140			28,391,778	27,880,140		
Net income per share	0.01	0.00			0.01	0.01		
Total assets					10,073,414	13,882,656	(3,809,242)	-27%
Working capital					1,374,414	3,859,635	(2,485,221)	-64%
Long term debt and demand loan					3,704,053	4,456,759	(752,706)	-17%
Shareholders' equity					2,756,243	2,344,402	411,841	18%

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

Note 2: Adjusted EBITDA is a non-IFRS measure and is calculated as EBITDA, gain or loss on foreign exchange, stock-based compensation, gain or loss on sale of property plant and equipment, gain or loss on sale of other assets, gain or loss on debt conversion, gain or loss on debt extinguishment, gain or loss on investments held for sale, and impairment of goodwill.

## Discussion of Results and Financial Condition for the Financial Quarter Ended March 31, 2018

This analysis compares the quarter ended March 31, 2018 with the quarter ended March 31, 2017.

During the quarter ended March 31, 2018, total revenue was \$7.7 million (March 31, 2017 - \$7.2 million), an increase of approximately \$500,000 (7%). The increase in revenue comes primarily from an increase in engineered solutions projects, offset by a decrease in pure consulting projects.

The Company continues to work on increasing revenue from engineered solutions projects over the coming quarters.

The Company operates in three geographical areas, Canada (country of domicile), the United States, and focused international (primarily Central America).

Sales reported by client location based on origin of purchase (i.e. domicile of contracting party, not final destination of equipment) are as follows:

	For the three months ended March 31		For the six months ended March 31	
	2018	2017	2018	2017
	\$	\$	\$	\$
Canada	<b>6,416,731</b>	7,203,410	<b>13,720,832</b>	15,369,567
International	<b>735,949</b>	9,590	<b>955,165</b>	120,218
United States	<b>555,073</b>	5,939	<b>591,713</b>	17,619
	<b>7,707,753</b>	7,218,939	<b>15,267,710</b>	15,507,404

Gross profit for the quarter ended March 31, 2018 was \$1.6 million, consistent with the quarter ended March 31, 2017. Gross margin decreased slightly to 21% from 22% for the quarter ended March 31, 2017.

Operating costs for the quarter ended March 31, 2018 were \$1.3 million which is consistent with the same quarter the prior year with a few relatively minor offsetting variances.

Finance costs were \$136,029 for the quarter ended March 31, 2018, a decrease from the \$165,052 reported the same quarter a year earlier. This was due primarily to the repayment of a mortgage on the sale of an office building in Ottawa in Q3 2017, as well as the repayment and conversion to equity of some of the restructured trade debt.

Net earnings for the quarter ended March 31, 2018 were \$168,881 compared with net earnings of \$89,778 in the same quarter the previous year.

Shareholders' equity increased to \$2.8 million at March 31, 2018 from \$2.3 million at March 31, 2017. The improvement is a result of the continued profitability and a debt conversion that took place in the Q1 of 2018.

The Consolidated Statement of Financial Position as at March 31, 2018 showed working capital of \$1.4 million, compared to \$3.9 million reported at March 31, 2017. Two items have negatively impacted working capital as at March 31, 2018. The first relates to the replacement of a long term mortgage on the property at 3108 Carp Road with a demand loan with fixed repayments that is classified as a current liability. The second relates to the reclassification of the Company's five year term loan, which was required under IFRS as a result of a cross default provision in the Company's loan arrangement. See the Liquidity section for further details.

### EBITDA and Adjusted EBITDA (see "Financial Terms and Definitions")

	For the three months ended		For the six months ended	
	March 31		March 31	
	2018	2017	2018	2017
	\$	\$	\$	\$
Net earnings	168,881	89,778	269,395	318,242
Depreciation of property, plant and equipment	7,564	33,957	16,534	67,921
Amortization of intangible assets	12,330	64,307	54,837	128,614
Finance costs	136,029	165,052	284,637	353,221
EBITDA	<b>324,804</b>	353,094	<b>625,403</b>	867,998
Foreign exchange loss (gain )	(7,982)	15,246	6,172	(18,784)
Share-based compensation	9,997	(7,866)	17,671	4,070
Gain on debt conversion	-	-	(10,233)	-
Loss on debt extinguishment	23,056	-	23,056	-
Gain on disposal of property, plant and equipment	-	-	(9,500)	-
Gain on disposal of other assets	(8,786)	-	(8,786)	-
Realized gain on investment held for sale	-	-	-	(12,556)
Adjusted EBITDA	<b>341,089</b>	360,474	<b>643,783</b>	840,728

Adjusted EBITDA for the three months ended March 31, 2018 was \$341,089, compared to \$360,474 for the three months ended March 31, 2017.

## Quarterly Results

Quarterly financial information for the eight quarters ended March 31, 2018  
 (in 000's, except as otherwise indicated)

	<b>Q2 2018</b>	<b>Q1 2018</b>	<b>Q4 2017</b>	<b>Q3 2017</b>
	<b>March 31, 2018</b>	<b>Dec 31, 2017</b>	<b>Sept 30, 2017</b>	<b>June 30, 2017</b>
Revenue	7,708	7,560	7,587	7,434
Cost of sales	6,091	5,889	5,893	5,989
Gross profit	1,616	1,671	1,694	1,445
Gross margin %	21%	22%	22%	19%
Operating expenses	1,311	1,422	1,580	1,205
Finance costs	136	149	168	170
Net earnings (loss)	169	101	(54)	70
Weighted average common shares	28,391,778	28,263,869	27,880,140	27,880,140
Income (loss) per share	0.01	0.00	(0.00)	0.00

  

	<b>Q2 2017</b>	<b>Q1 2017</b>	<b>Q4 2016</b>	<b>Q3 2016</b>
	<b>March 31, 2017</b>	<b>Dec 31, 2016</b>	<b>Sept 30, 2016</b>	<b>June 30, 2016</b>
Revenue	7,219	8,288	7,258	8,378
Cost of sales	5,615	6,592	6,169	6,507
Gross profit	1,604	1,696	1,089	1,871
Gross margin %	22%	20%	15%	22%
Operating expenses	1,349	1,280	1,053	1,269
Finance costs	165	188	122	231
Net earnings (loss)	90	228	(87)	371
Weighted average common shares	27,880,140	27,880,140	27,880,140	27,880,140
Income (loss) per share	0.00	0.01	(0.00)	0.01

## Quarterly Trend Analysis

Historically, the Company's consulting projects have followed a seasonal pattern with the second and third quarters, ended March 31 and June 30 respectively, experiencing relatively lower levels of activity when compared to the balance of the year. This seasonality is in large part weather-related, as it is easier and more productive to conduct outdoor environmental investigations, site remediation, and construction-related projects in Canada during the summer. In addition, the December holiday period can have a significant impact on activity levels possible in that quarter (BluMetric's first quarter) depending on how it falls in the month.

## **Q2 18 vs Q2 17**

Revenues in the second quarter of 2018 were \$7.7 million compared to \$7.2 million for the quarter ended March 31, 2017, an increase of \$500,000. While there was an increase of \$1 million in water systems projects, there was an offsetting decrease in consulting projects of approximately \$500,000. BluMetric has seen an increase in mining, food and beverage and government projects. Net earnings for the quarter are \$168,900 compared to \$89,800 in the same quarter the prior year. Gross profit remained relatively consistent at \$1.6 million which represents 21% of revenue compared to 22% of revenue the same quarter the prior year. Operating costs are also fairly consistent at \$1.3 million quarter over quarter with a few minor offsetting variances.

## **Q1 18 vs Q1 17**

Revenues in the first quarter of 2018 were \$7.6 million compared with \$8.3 million for the quarter ended December 31, 2016, a decrease of \$700,000 or 9%. The decrease comes primarily from consulting projects but is offset by an increase in engineered solutions projects primarily in the mining and food and beverage sectors as existing and newly signed systems are being delivered. These types of projects were nearing completion in the same quarter last year. Net earnings for the quarter were \$101,000 for the quarter compared to \$228,000 the same quarter a year earlier. Gross profit was nearly flat with \$1.7 million in both quarters, though the gross margin improved from 20% to 22%. Operating costs increased from \$1.3 million in Q1 2017 to \$1.4 million in Q1 2018. This increase is primarily due to a \$250,000 severance for the previous CEO of the Company which was recognized in Q1, with a slight offset in bad debt expense.

## **Q4 17 vs Q4 16**

For the fourth quarter of 2017 revenue was \$7.6 million compared to \$7.3 million in the fourth quarter of 2016. This was due to increased activity in project work across the Company. The net loss for the quarter was \$54,000 compared with net loss of \$87,000 for the same quarter in the previous year. While there was a \$600,000 improvement in gross margin, there was an offsetting increase in operating costs of \$527,000. The gross profit improvement is due to larger activity in engineered solutions projects, which typically have higher gross margins. The increase in operating costs is largely the result on an increase in the bad debt provision as well as increased consulting and professional fees.

### **Q3 17 vs Q3 16**

For the third quarter of 2017 revenue was \$7.4 million compared to \$8.4 million in the third quarter of 2016. This was the result of fewer active engineered solutions projects in Q3 FY2017 compared to Q3 of 2016 as well as the timing of several retrofit projects that started towards the end of Q3 2017. The sales cycle for engineered solutions projects is long and can range between 6 to 18 months. Subsequent to Q3 2017, the Company announced contract signings for these types of projects in excess of \$1.0 million. Consulting projects were impacted by a general slow-down in government programs, primarily due to delays in government procurement and funding allocation. Net earnings were \$70,000 for Q3 2017 compared to \$371,000 for Q3 2016. This is due largely to lower margins from the consulting projects in Q3 2017. The quarter was also impacted by a \$69,000 impairment related to an office building that was sold subsequent to quarter end and was therefore written down to its net recoverable amount during the quarter.

### **Liquidity**

The Company's short-term credit facilities consist of an operating demand loan in the amount of \$2,500,000 with a \$500,000 sublimit for letters of credit. The facility carries a floating interest at prime plus 2.25%, is collateralized by a first ranking general security agreement over all of the Company's present and future assets, and is subject to margining based on the amounts of eligible accounts receivable. Each letter of credit must be 100% guaranteed in favour of the bank through a separate program provided by the Export Development Corporation. At March 31, 2018, the effective interest rate under this facility was 5.70% (March 31, 2017 – 4.95%).

The Company also has a corporate credit card facility in the amount of \$165,000.

As at March 31, 2018, the Company had drawn \$490,713 on its operating demand loan (March 31, 2017 \$1,074,551) and it had drawn \$207,415 in outstanding letters of guarantee (March 31, 2017 - \$ 212,460). The letters of guarantee expire on July 26, 2018.

The Company has certain covenants in accordance with its short-term credit facilities. As at March 31, 2018, the Company was in default of one of its covenants related to these facilities, namely its total funded debt to EBITDA ratio.

In addition to the above credit facilities, 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 of March 31, 2018, \$124,640 including a portion related to the prior year paid in installments (March 31, 2017 -\$54,539) was accrued in other accruals and payables with respect to these royalties.

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

As of March 31, 2018, the Company was in compliance with its covenants under the term loan agreement. However, given the covenant breaches under its short-term credit facilities and the cross default provisions, the entire amount of the term loan has been included in the current portion of long-term debt. The Company has received a waiver from its lender of the cross default provision of the term loan. However, the Company is still required to re-classify the five year term loan at March 31, 2018 to current liabilities under IFRS.

Subsequent to March 31, 2018, the Company's short term credit facility agreement was revised by the bank and moving forward, it no longer includes the total funded debt to EBITDA ratio as a covenant. Had this new agreement been in place at March 31, 2018, no breach would have occurred under the short-term credit facilities and accordingly, there would not have been a cross-default with the term loan and no reclassification to current liabilities would have been required.

During the quarter ended March 31, 2018, the Company replaced its existing mortgage on its office building at 3108 Carp Road with a demand loan from another financial institution secured by the same property. This loan carries fixed monthly principal payments with a floating interest rate.

The Company is actively pursuing a focused service strategy, improved cost control and the sale of non-core assets, as well as the pursuit of new revenue contracts. In addition, the credit and loan arrangements described above, which were concluded on September 12, 2016, have provided the Company with additional capital to fund its growth initiatives. The Company has generated net earnings for the quarter ended March 31, 2018 as well as for the previous two fiscal years and anticipates having sufficient funds over the next twelve months to discharge its liabilities. Nevertheless, there is no assurance that these ongoing initiatives will continue to be successful.

## **Business Outlook**

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

The Company is targeting both organic revenue growth and growth through association with technology suppliers. BluMetric's focus will continue to be on improving project margins while reducing overhead costs.

The best opportunities for growth are on projects where the client's operating expenses can be reduced as a result of proposed solutions and where solutions help clients meet more stringent regulatory requirements.

## **Capital Resources**

The Company's future growth strategy contemplates investment in various technologies and processes requiring capital for prototyping purposes. Accordingly, the Company may opportunistically approach capital markets for additional equity funding if conditions are favourable.

## **Business Risks**

The Company is subject to risks and uncertainties in the normal course of business that could materially affect the financial condition of the Company. These risks and uncertainties include, but may not be limited to, the following:

- Macroeconomic risk of recession in key markets or the economy as a whole;
- Reliance on key clients;
- Failure to retain and develop key personnel;
- Competition from companies which are better-financed or have disruptive technologies;
- Major swings in currency valuations after setting the price of foreign contracts; and
- Cybersecurity threats.

## **Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

## **Transactions with Related Parties**

All related-party transactions are conducted under terms and conditions reflecting prevailing market conditions at the transaction date and are recorded at the amounts agreed upon by the parties.

## **Proposed Transactions and Subsequent Events**

As at March 31, 2018, the Company has its office property at 3108 Carp Road for sale. There are no other significant assets or business acquisitions or dispositions being considered by the Company.

## **Inter-Corporate Relationships**

BluMetric has one wholly owned subsidiary, BluMetric S.A. de C.V., located in El Salvador.

## Summary of Outstanding Shares and Dilutive Instruments

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

Shares:	28,391,778 common shares
Warrants:	nil
Options:	1,674,875 options

## Financial Terms and Definitions

### Definition of Additional IFRS Measures

IFRS mandates certain minimum line items for financial statements and requires presentation of additional line items, headings, and subtotals when such presentation is relevant to an understanding of a company's financial position and performance. Because IFRS requires such additional GAAP measures, the measures are considered additional IFRS measures rather than non-IFRS measures. The Company believes that the measures defined here are useful for providing investors with additional information to assist them in understanding components of BluMetric's financial results.

**Gross Profit.** Gross profit is calculated as gross revenue minus direct expenses and direct payroll costs. Direct expenses are certain costs incurred in the delivery of BluMetric's services such as subcontractors, equipment, and other expenditures that are recoverable directly from clients. Direct payroll costs include the cost of salaries and related fringe benefits for employees. The monitoring of gross margin percentage levels ensures the Company is within the established acceptable range for the profitability of operations.

### Definition of Non-IFRS Measures

This Management Discussion and Analysis includes reference to and uses terms that are not specifically defined in IFRS and do not have any standardized meaning prescribed by IFRS. These non-IFRS measures may not be comparable to similar measures presented by other companies. The measures defined here are useful for providing investors with additional information to assist in understanding components of the financial results.

**EBITDA.** EBITDA represents net earnings before interest expense, earnings taxes, depreciation of property and equipment, and amortization of intangible assets. EBITDA assists measuring operating performance of the Company. There is no direct comparable IFRS measure for EBITDA.

**Adjusted EBITDA.** Adjusted EBITDA additionally excludes items that are significant and irregular (such as the sale of a building or goodwill impairment), non-cash based (such as share-based compensation), or non-operational in nature (such as foreign exchange gains and losses).

Management believes that Adjusted EBITDA as defined above is an important indicator of the Company's ability to generate liquidity through operating cash flow to fund future working capital needs, service outstanding debt and fund future capital expenditures and uses the metric for this purpose. Adjusted EBITDA is also used by investors and analysts for valuation purposes. The intent of the Adjusted EBITDA is to provide additional useful information to investors and analysts and the measure does not have any standardized meaning under IFRS. Adjusted EBITDA should therefore not be considered in isolation or used in substitute for measures of performance prepared in accordance with IFRS. Other issuers may calculate Adjusted EBITDA differently.

### **Management's Responsibility for Financial Reporting**

The consolidated condensed interim financial statements of BluMetric Environmental Inc. and all the information in this Management Discussion and Analysis have been prepared by management, which is solely responsible for the integrity and fairness of the data presented, including the many amounts, which due to necessity, are based on estimates and judgments. The accounting policies followed in the preparation of these consolidated condensed interim financial statements conform to International Financial Reporting Standards. When alternative accounting methods exist, management has chosen those that it deems most appropriate in the circumstances. Financial information presented throughout this report is consistent with that in the consolidated financial statements.

BluMetric maintains systems of internal accounting and administrative controls to provide reasonable assurance that the financial information is relevant, reliable and accurate and that transactions are authorized, assets are safeguarded and proper records are maintained.

The Board of Directors is responsible, principally through its Audit Committee, for ensuring that management fulfills its financial reporting responsibility.

### **Additional Information**

Additional information on the Company can be found at [www.blumetric.ca](http://www.blumetric.ca) and at [www.sedar.com](http://www.sedar.com).