

**BluMetric Environmental Inc.**

**First Quarter 2023 Earnings Conference Call**

March 2, 2023 — 1:00 p.m. E.T.

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## **CORPORATE PARTICIPANTS**

**Jonathan Paterson**

*Harbor Access — Managing Partner*

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*BluMetric Environmental Inc. — Chief Executive Officer*

**Vivian Karaiskos**

*BluMetric Environmental Inc. — Chief Financial Officer*

## **CONFERENCE CALL PARTICIPANTS**

**Paul Steep**

*Dunlop Capital — Analyst*

**John Lewis**

*Private Investor*

## PRESENTATION

### Operator

Good morning, ladies and gentlemen, and welcome to BluMetric Environmental Inc. Conference Call. At this time, all lines are in listen-only mode. Following the presentation, we will conduct a question-and-answer session. If at any time during this call you require immediate assistance, please press star zero for the operator. This call is being recorded on Thursday, March 2, 2023.

I would now like to turn the conference over to Jonathan Paterson at Harbor Access. Please go ahead.

### **Jonathan Paterson** — Managing Partner, Harbor Access

Thank you, operator. Good afternoon and welcome, everyone, to BluMetric Environmental quarterly earnings conference call. This call will cover BluMetric's financial and operating results for the fourth quarter 2022 and Q1 2023. Following our prepared remarks, we will open the conference call to a question-and-answer session. Our call today will be led by BluMetric's Chief Executive Officer, Scott MacFabe, along with the Company's Chief Financial Officer, Vivian Karaiskos.

Before we begin our formal remarks, I'd like to remind everyone that some of the statements on this conference call may be forward-looking statements. Forward-looking statements may include, but are not necessarily limited to, financial projections or other statements of the Company's plans, objectives, expectations, or intentions. These matters involve certain risks and uncertainties. The

Company's actual results may differ significantly from those projected or suggested in any forward-looking statements due to a variety of factors, which are discussed in detail in our regulatory filings.

I will now hand the call over to Scott MacFabe. Please go ahead, Scott.

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

Thank you, Jonathan. Good afternoon, everyone, and welcome to our first quarter 2023 earnings call for BluMetric Environmental. We appreciate you joining us on today's call.

First I'd like to acknowledge the strength of our talented and diverse team, who allow us to successfully deliver solutions to our clients' complex environmental and business challenges. At the same time, I'd like to acknowledge our shareholders and thank them for their continued support and confidence in BluMetric Environmental. After my overview of the first quarter, CFO, Vivian Karaikos, will provide our financial results in far more detail.

We closed out 2022 at a very strong year, made meaningful progress in all aspects of our business that we believe will enable and empower our future going forward. On many levels, BluMetric Environmental delivered a solid first quarter to the year, made possible by the impressive teamwork and collaboration across the Company as well as demonstrated by disciplined management of the Company.

Our diverse turnkey solutions are resonating well across all of our verticals, as demonstrated by our positive results. We're seeing an increased number of larger projects come online. We continue to actively leverage satisfied clients into new follow-on contracts, particularly in brownfield remediation and clean tech solutions, further validating our technical expertise in these areas.

Our first quarter for 2023 revenue came in at \$10.5 million, more than 30% increase compared to Q1 2022. The larger top line reflects the active portfolio of projects with larger field programs, higher level of requirements for materials for our clean tech solutions as well. Our EBITDA marginally increased to \$920,000.

We continue and expect to see in the coming year a return to historic profit margins as the result of current macroeconomic environment creates both headwinds and tailwinds for us. Operating costs have increased, as expected, due to increased activity and strategic investments in sales, marketing, and technology. Our balance sheet remains very healthy, as demonstrated by our net cash position. And we remain confident that our capital stewardship priorities will deliver sustainable growth, resulting in shareowner value over the long term.

Revenue shifts from quarter to quarter, that's a characteristic of our business, and this quarter was no exception. Revenue from the government and military markets for the quarter were in line with Q1 of 2022 while revenue from our mining sector increased more than 60% driven by greater customer diversification, new clients, successful business development. We continue to focus on expanding our mining portfolio and recognized approximately \$0.5 million from new customers in the first quarter. Our commercial industrial market revenue increased by about \$1.7 million, mainly a result of a very large remediation project for brownfield redevelopment.

Gross profit was \$2.3 million and gross margin normalized to 22% in the first quarter compared to \$2 million and 26% for Q1 2022. As I stated earlier, profit margins reflect a return to historic levels due to higher material usage and projects, in addition to higher labour and material costs.

Looking forward to 2023, our project pipeline continues to build as we strengthen client relationships and pursue significant strategic long-term opportunities. In the past quarter we embarked on a joint venture with Kitikmeot Group, an Inuit-owned business. We look forward to collaborating with Kitikmeot and other partners in this JV on projects in Nunavut, supporting federal, territorial, and private industry clients. The new partnership will allow the Company to compete on and continue to work on new contracts north of 60.

BluMetric takes a highly disciplined approach to identifying opportunities and we believe that will accelerate our growth over the long term. We continue to prioritize our business development efforts in all key client sectors with a focus on key investments in clean tech water treatment solutions. The fabrication of our mobile, agile water treatment system, a scaled-down version of our water treatment systems used by the Department of National Defence, is nearly in completion and will be unveiled in a series of marketing road shows later this year. It's a very exciting development that we expect will support sales growth as part of our key market expansion strategy.

I'll now hand this over to Vivian for an overview of our financials. Please go ahead, Vivian.

**Vivian Karaiskos** — Chief Financial Officer, BluMetric Environmental Inc.

Thank you, Scott.

We're pleased to present to you today BluMetric's quarterly results. Due to the proximity of our Q4 fiscal year 2022 numbers, I will give a high-level overview of our numbers for that reporting period before discussing Q1 2023.

For Q4 2022 we saw revenue of \$9.9 million, which was an increase over the same period for the previous year. Gross profit for the quarter was \$1.8 million compared to \$2.3 million for Q4 2021. Gross profit for fiscal year 2022 was \$7.6 million compared to \$9.4 million for fiscal year 2021. The decline in gross profit for both Q4 and for the full year is mainly due to the mix of projects completed by the Company when compared to the prior year.

Now moving to our most recent results for Q1 2023, BluMetric had quarterly revenues of \$10.5 million with gross profits representing \$2.3 million for a gross margin of approximately 22%. The Company's EBITDA was \$919,851 with net earnings of \$455,811 or \$0.02 per share. Year over year we experienced an increase in overall revenue, mainly due to a large remediation project for a brownfield development site. In addition, our clean tech projects required a high level of materials during Q1. The Company's results were in line with internal expectations.

On December 31, 2022, BluMetric had a cash and cash equivalents balance of \$4.1 million, a decrease of \$840,752 from the previous quarter end. The Company remains well financed to achieve its objectives and maintains a clean capital structure with minimal debt. Regarding cash flow, the Company saw a decrease in cash flow due mainly to increased vendor payments for materials and services related to our projects. There were no investing activities in the three months ended December 31, 2022 compared to cash consumed by investing activities of \$49,212 in the three months ended December 31, 2021. As at December 31, 2022, the Company had approximately \$6.8 million in availability between its operating line and cash balances and was in compliance with all its covenants.

We will report fiscal Q2 2023 results in May 2023.

I'd like to thank you for taking the time to allow us to present our results to you today. We will now take questions from call participants.

## Q & A

### Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press star one on your touchtone phone. You will hear a three-tone prompt acknowledging your request. Should you wish to decline from the polling process, please press the star followed by the two. If you are using a speakerphone, please lift the handset before pressing any keys. One moment please for your first question.

Your first question comes from Paul Steep of Dunlop Capital. Please go ahead.

### Paul Steep — Analyst, Dunlop Capital

Great. Thanks for hosting the call. Could you maybe speak a little bit about the new mobile water and the waste product? Just specifically how you think about going to market with it. Is it BluMetric's IP or is it a services offering that you're going to market with? And then maybe what the CapEx requirements you're thinking would be needed there to sort of get this to full commercialization.

### Scott MacFabe — Chief Executive Officer, BluMetric Environmental Inc.

Absolutely. Thank you. That's a great question. I'm delighted to answer it. What we have is tried and true technologies that we've deployed within the Department of National Defence for many, many



years. I'm going to say over 20 to 30. Those are very large systems that are either in Royal Canadian Navy boats or land-based systems that are intended to bring into combat or for other purposes. So the bottom line is it's very much a tried and true well understood technology. The IP that we have is related to how we have a military-grade system that is simple, easy to operate, and it's very reliable.

So what we have done through conversations with our clients, and that is not just the DND, it is also overseas, very interested in us scaling that military-grade system down to something that is agile and mobile and resilient. And so we have done just, in fact, that. We have a system we're just about completed. So we are using our known and tried and true technology, just scaling it down. That will be in a trailer-mounted system. It will be ready for the CANSEC conference, which is the big military conference coming up this spring. But from the standpoint of where that particular technology stands, it's as good as built. It is tested and tried and true. It's now just getting it ready to have wheels and get it where it needs to go in a far more agile state. We've got a tremendous amount of interest, both in North America, specifically in Canada, but certainly a lot of interest overseas, as you would expect, relative to humanitarian support in the UK through to the Ukraine.

**Paul Steep** — Analyst, Dunlop Capital

Great. That's sounds super interesting. Not to—sorry. Sorry, go ahead.

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

So that's the technology. In terms of how we operate, we have it covered. We don't have to do a cash raise to be able to support this technology or its development. We have enough interest where,

when we pursue new opportunities, we negotiate contracts so that we maintain, as best as we can, a cash neutral position with our new clients, so it doesn't dig into our cash position.

**Paul Steep** — Analyst, Dunlop Capital

Perfect. Just on that in terms of, you know, maybe twofold. One, are there already standing orders you'd be able to sort of go and hunt against when people see this product working? And then the second part of it, assuming we secure some great orders here, any supply chain concerns? I assume most of it is sourced domestically and you're not dealing with a ton of supply chain issues. I know you guys do some work in your facility as well.

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

Sure. Sure. Well, I'll start with supply chain and I'll work back into the rest of your question. Fortunately for us, we have a very well established supply chain for our existing technology. So our reputation is there, the relationships are there, and our ability to procure and build is excellent. That's not to say every once in a while we may run into a bit of a headache or a hiccup, but we usually work that out fairly seamlessly. So that's our supply chain.

In terms of opportunity and orders out there, yes, there are opportunities and the potential for orders for sure, many of which I can't speak to at the moment because it's either within our pipeline or in pursuit, but we absolutely are responding to a market demand. We are not creating technology just as a segment of our (inaudible).

**Paul Steep** — Analyst, Dunlop Capital

That was the last part, covers it perfectly. I'll hit one more and then I'll let somebody else in with a question here. Could you just give us a sense of what backlog is at the end of Q1? You provided it, obviously, you provided RPOs at the end of Q4, but I think that would be helpful to give people a perspective of where the business is at.

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

I think the best way for me to answer that is we're doing better at tracking our backlog, our bookings, our sales not booked, all of those things. The systems within the firm have improved substantially in the last five years. But I'm not going to, I can't give you a hard number. But I can say the firm is very healthy.

We definitely have a solid backlog for us to operate on and we are driving our sales to really take advantage of very high-priority opportunities within the sales funnel or the pipeline. And that's been sprinkled in amongst some of our press releases where we really see that the evolution of the firm really, in many ways, is evolving, is improving how we sell what it is that we do. It's a very established business. This is a firm that in its entity has been around, by and large, almost 30, 40 years. And so it's not a start up, it's just the way the firm has operated historically to where it's operating now, there's a keen interest in improving how we sell what we do. We're kind of the best kept secret and that's not a good place to be. We need to get out there a little more. So we're working on that.

**Paul Steep** — Analyst, Dunlop Capital

Great. Actually, I'm going to ask you to clarify one comment, because you said something slightly different than what was in the MD&A today.

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

Okay.

**Paul Steep** — Analyst, Dunlop Capital

So you talked about maybe some of the margin pressure just in terms of, well, it's actually PDF page seven, the op cost. There you sort of called out increase in technology costs related to software licensing and consulting, legal, and SPC(sp.). SPC was minor. It sounds like what you were saying on the call today was, hey, you've just gotten hit with inflation and it was technology related to maybe one brownfield project? I just wanted to clarify that.

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

The technology line, really that's, within the organization, we're investing in our IT and systems and software to improve how we operate. It's not related to the delivery of our systems or our services to our clients. The firm is due for some investments in how we operate and improve our efficiencies and results and so the nice thing is we're getting a lot of that investment behind us and we're ready to take advantage of the tools we have in the toolbox today.

**Paul Steep** — Analyst, Dunlop Capital

Perfect. Thanks for taking my questions. Appreciate it.

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

Thank you.

**Operator**

Thank you. The next question comes from John Lewis, private investor. Please go ahead.

**John Lewis** — Private Investor

Good afternoon, Scott, Vivian. Congrats on a solid quarter. Well done. A question for you. You said you're going back to more traditional margins, so would you say somewhere in the 20%, 25%? Is that the area we're looking at for gross margin?

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

Yes. Yes. I think historically some of the questions were, through the pandemic, we had some extremely profitable contracts that were pivot services to support COVID. And they definitely gave us a nice cash infusion, there's no doubt about it. But the question often was what's it going to look like after those services are done. Well, they're not completely done. We're still working with those clients in different capacity, different services, but the profit margins floated down a little bit to now what I would say is more realistic, within the low to mid 20s.

**John Lewis** — Private Investor

Okay. Just a reminder on your quarters, would you say they're equal? Would you say like one and two is strong, three and four is soft? Is there any rhyme or reason to how the business... I don't think there's a lot of recurring revenue in the business, is there?

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

Well, there is. I mean it depends, because there's the two key aspects of what it is that we do and what we sell. And we sell total solutions, so it's services and technology. So, depending on the technology side and supporting that tech on the water tech side, we often will come off of a very large contract and we'll be lifting into a new contract. And there's no seasonality to that. That just is a matter of the timing associated with closing and starting or building on new contracts.

In terms of the services that we offer, there is some seasonality, because it depends on our ability to get out and function in the field. But a lot of the work that we do as well is high-level consulting that's more desktop and pair with that our ability to operate even more efficiently now that we have systems having worked through the pandemic. We're trying to take the lumpiness out of our earnings. And that's always been a question and we recognize it, you know, trying to come up with and have a mix of our markets and a mix of our technology that produces what would be far more palatable from an investment standpoint as consistent results. But I'm not going to promise that. We have to understand that there will be, honestly, some ups and downs, hopefully mostly ups, going forward, and that's just honest reporting of our results, John.

**John Lewis** — Private Investor

Yeah, no, I appreciate that. Two more questions, I guess, drilling down a little bit on the clean tech and the (inaudible) water products. I guess would it be fair to say that the applications would be in disaster recovery, military, maybe remote communities? Is that about right?

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

Yes. I mean it really starts with humanitarian relief. There's a very high demand in the military with disaster relief, you know, the DART program, we've always been part of that. It's another tool in their toolbox to be able to respond and support as needed. But yeah, absolutely, it's definitely taking what we do well and scaling it to the point where we say our pitch line is mission-ready water in a world of uncertainty. And so this hits that mark quite squarely.

**John Lewis** — Private Investor

Are you or have you looked at maybe water reuse or desalinization, those sorts of products or areas? There seems to be big infrastructure products there. Have you ever looked at that?

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

The systems that we have on the boats, they're all de-sal. They all do that. And we've been doing that for a long time. These systems can do that and more. The goal is, is to be able to drop it in a situation, bring it in with typical equipment, like a heavy pickup truck, what have you, get it in, hook it up, start it up, train somebody, and they're producing clean, potable water almost immediately with

very little training. And I think that's the... Part of the key to this is there may be more interesting, more elaborate systems, but we find they go to a remote site, they work for an hour, they break, and then you're looking for parts. And that's not us. This is a resilient, agile system that's intended to be operated. It's military grade. It's intended to be taught and operated with rudimentary skills and abilities. So I think that's part of the trade that we push on our technology are those key issues.

**John Lewis** — Private Investor

What does the competitive landscape look like? I assume you must be up against some pretty big names out there.

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

Yeah, I mean there's others that dabble in this and are looking at it too, but I think our value proposition is extremely high. It's made, it's designed, built, and delivered out of Canada. We look at that to say that that is an advantage in and of itself. Our reputation precedes us on the basis of our performance with the Department of National Defence in Canada. Others can't say that. What we see within the market landscape is many build something, they sell it, they don't support it and, as a result, it's a very heavy boat anchor, a paperweight sitting on a shelf in an unknown location. And that's not how we operate.

We also have sticky services where we have field service representatives that, at the drop of the hat, will get on a plane, and have, fly to Singapore, make sure it works, even if it's remote support. But these are experts and a lot of them have come from the Helmets to Hardhats program. We like military



folk that are used to this kind of an environment and this kind of technology. So it's really, ah, I consider it to be an elegant solution when it comes to not just selling the tech but making sure we've got a good stable of people that can support the ongoing successful operation of it.

**John Lewis** — Private Investor

Okay. Sounds good. Is there, in this competition, the DND competition, is there a hard date on this or is it one of those things that could be in a month, three months, six months kind of thing? It's the government you're dealing with after all.

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

Well, John, the best I can tell you is, and for everyone on the call, is to stay tuned. We're building this equipment for a reason. It is to fill a demand. It's not just because we love it, even though we do. And so, from the standpoint of where we sit in terms of our contracts, I'm not at liberty to discuss that at the moment.

**John Lewis** — Private Investor

That's fine. Last question. In your MD&A, it could be one of those boilerplate statements, but you mentioned that you have, you look at M&A, you think about M&A. Is that a fact? Is there a pipeline? Are you actively discussing? And/or what would an M&A target look like for you?

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

Well, absolutely, if there is an entity out there that matches our culture, that will be truly additive on both the top and the bottom line, and is interested in being part of who BluMetric is and will be, we're all ears. But do know this: The discipline that got us here where we can discuss results like we can today is applied exactly to the same conversations we have with M&A candidates. And we have seen a few. And we have, when we get down to the bottom line, and I mean the bottom line, they just don't, they haven't penciled out. That's not to say one won't. But Vivian and I and our team are very disciplined in terms of what we look at, what we're looking for, what would make sense, and would be truly additive to our not just short-term but long-term growth. But up to now, John, we've just been, frankly, kissing frogs.

**John Lewis** — Private Investor

Got it. Okay. Listen, Scott, I do appreciate your candour, like what I'm seeing, and wish continued success and look forward to the next news. Appreciate it. Thank you.

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

Thank you, John. Good to hear from you.

**Operator**

Thank you. Once again, ladies and gentlemen, if you do have a question, please press star one at this time.

There are no further questions at this time. Ladies and gentlemen, this concludes the conference call for today. We thank you for your participation and ask that you please disconnect your lines.