Management Discussion & Analysis

2015 First Quarter Report
Three months ended
December 31, 2014 and 2013
(expressed in Canadian Dollars)

BluMetric Environmental Inc.

March 2, 2015

On November 6, 2012, with shareholder approval, Seprotech Systems Incorporated ("Seprotech") filed Articles of Amendment changing its name to BluMetric Environmental Inc. ("BluMetric" or the "Company"). On November 16, 2012, BluMetric completed a reverse take-over (the "RTO") with WESA Group Inc. ("WESA"). On November 17, 2012 BluMetric and WESA were amalgamated. In accordance with IFRS 3, comparative historical financial information referred to in this discussion and analysis reflects the results for WESA for the respective periods, except that results for the former Seprotech have been included from November 17, 2012.

This discussion is dated as of March 2, 2015, and explains the material changes in BluMetric's financial condition and results of operations for the quarter ended December 31, 2014 ("Q1:15"). They should be read in conjunction with the Company's condensed consolidated interim financial statements and related notes for the quarter ended December 31, 2014 and the Management Discussion and Analysis and audited consolidated financial statements and notes for the year ended September 30, 2014. The information provided in this document is not intended to be a comprehensive review of all matters concerning the Company. The consolidated financial statements and notes thereto constitute an integral part of the discussion and should be read in conjunction with these comments.

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 "Selected Financial Information", "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.

No securities commission or regulatory authority has reviewed the accuracy or adequacy of the information presented here.

Description of Business

BluMetric Environmental Inc. (www.blumetric.ca), a cleantech company, delivers sustainable solutions to complex environmental issues. The Company serves clients in many industrial sectors, and at all levels of government, in Canada and abroad. The Company and/or its predecessors have been in business since 1976.

The Company's business is executed by a staff of approximately 155. Operations are located in eight offices in Canada (Ottawa – Headquarters, Toronto, Montreal, Kitchener, Gatineau, Kingston, Sudbury, and Yellowknife), and through an office in El Salvador which services projects in the Central American region.

Within the overall organizational envelope, the various offices have a high degree of autonomy, and each office's respective market focus is slightly different in response to the industrial sector opportunities particular to its location. For example, the Yellowknife office is focused on northern contaminated site remediation and mining projects in the north; the Kitchener office services a variety of commercial and industrial sectors such as auto parts manufacturing, land development, and waste management; other regional offices show a similar sensitivity to local needs.

While the Company's current geographical focus is the Americas, historically the Company has also undertaken significant project assignments internationally in the United States, Africa, the Middle East, Central America, and the Caribbean.

The Company's geographic and market focus distribution provides a degree of risk mitigation as a result of this diversification, as some industrial sectors and regions are more active than others at any given time. No one industry sector accounts for more than 25 percent of the Company's revenues.

The head office of BluMetric is at 3108 Carp Road, Ottawa, Ontario, K0A 1L0.

Core Business

Water is the Company's primary focus although business strengths also include other media such as soil and air. BluMetric delivers its product and service offerings through two operating groups, as follows:

1. The Professional Services group provides environmental earth sciences and engineering solutions, contaminated site remediation, water resource management, occupational health& safety, renewable energy expertise, and services in sub-disciplines such as Geomatics and unmanned aerial vehicle (UAV) data gathering.

2. The Water Systems group is focused on military contracts, design-build, and pre-engineered solutions to industrial/commercial water and wastewater treatment needs, as well as the development and marketing of specialised products for water, wastewater, and waste treatment.

BluMetric Professional Services Group

This group comprises scientists, engineers, industrial hygienists, environmental auditors, project managers, financial specialists, and support personnel. BluMetric prides itself on finding cost-effective, practical, and sustainable solutions to each client's environmental issues. BluMetric offers a wide range of environmental professional services, including but not limited to:

- Hydrogeology and hydrology
- Environmental assessment and due diligence
- Engineering, rehabilitation, and design
- Renewable energy, waterpower, and hydraulic structures
- Geomatics, UAV and bathymetric data collection and analysis
- Industrial hygiene and occupational health & safety
- Management systems

BluMetric Water Systems Group

BluMetric's Water Systems group designs, manufactures, and implements water and wastewater treatment systems for industrial, commercial, and government clients. Focus is on the selection of the most appropriate technologies and processes for each client's needs. The group provides a single-source solution from process definition through construction, commissioning, and on-going support. In general, the services provided fall under the following headings:

- Equipment, product, and technology offerings
- Service offerings

In addition to the above, the Water Systems group provides extensive service to the Canadian Armed Forces under long-term contracts for the maintenance, repair, refurbishment, and upgrading of the Canadian Army's Reverse Osmosis Water Purification Units (ROWPU) and for the Navy's Shipboard Reverse Osmosis Desalination (SROD) systems.

Strategic Update

The Company's short-to-medium-term strategy is focused on returning the Company to profitability using a variety of tactical measures (including pricing/margin management, SG&A cost reduction, and project management adjustments) as well as focusing on high growth, high margin services. This turnaround phase is expected to take some time to complete. The results of Q1 15 are a positive start to the 2015 fiscal year and reflect progress in this regard. (Please see "Results of Operations" below).

Diversity is viewed by management as a long-term strategic differentiator between BluMetric and the competition. To support this diversity, management views a top line of $40.0 million as necessary for sustainable profitability. The most expedient pathway to this revenue target is to grow the Water Systems group to high-margin revenue of $18.0+ million, built on an existing strong project backlog in military and new growth in the design-build and aftermarket parts businesses. At the same time, management will reinforce and support the Professional Services group to steady revenues of $22.0 million, a modest growth of 5%. Efforts will be directed toward improving margins and project management.

The growth in the Water Systems Group is expected to occur over a period of 12-to-18 months from the third quarter of FY2014. This lag is a product of the longer project cycle in the Water Systems Group (6 to 12 months plus in most cases). The project pipeline, estimated to be in the order of $46.0 million at the end of FY2014, has been increased in the first quarter of FY2015.

Growth in either group will not be achieved at the expense of targeted margins.

Professional Services will continue to strengthen its existing markets in the near to medium term and the focused expansion activities on some key service lines, most notably Geomatics (data acquisition facilitated by unmanned aerial vehicles (UAVs) and bathymetric platforms and hydrology will continue. The Water Systems group has focused on the industrial markets catering to food and beverage, mining, and residential development, with an integrated package of products.

The Company has initiated the identification and training of a strong representative network (currently three in California, two in the American north-east, two in Central America and one in Peru). This rep network will continue to expand with high quality contacts with a mandate to sell design-build water and wastewater treatment solutions and products, particularly in the Americas. We would anticipate growing the rep network in the continental US by an additional 4 reps in the balance of the fiscal year. This network is being positioned to take advantage of the growing recovery of the United States economy, and that country's urgent need to repair or replace aging infrastructure, thereby facilitating measured and financially feasible reconstruction. There is a similar need for new solutions in infrastructure in the growing economies of South and Central America. These economies have a growing middle class and have recently signed trade agreements which require them to participate fully in environmental initiatives often driven by North American based project owners and clients. This is being done with the introduction of new products such as COBRA (combined membrane bioreactor) and the H4 (Heavy Fuel Oil Recovery Unit).

The Company's working capital is expected to support planned business operations through fiscal 2015, provided it is able to complete a number of financing initiatives currently in progress. While the Company continues to report a working capital deficit at the end of December 31, 2014, this was largely due to the re-classification of bank term debt as a current liability, in light of a cross-default (financial covenant out of compliance) with the operating line of credit.

Key Performance Drivers

Management believes that the Company's business segments continue to be somewhat insulated from international economic and commodity demand factors, since much of its revenues are in Canadian dollars and derived from the fee-for-service business which does not generally have raw materials cost exposure. As the business grows, especially in the US and Latin America, the Company will gain some positive impact from recent adjustments in exchange rates, assuming continued relative strength in the U.S. dollar compared with the Canadian dollar. All international projects are quoted in U.S. dollars historically and in the future. Other external performance drivers include the interplay between regional and global economic conditions and the degree to which potential clients place emphasis on environmental issues (regulatory or otherwise) in their business practices.

To the extent that major customer segments (e.g. the mining industry) are impacted by external performance drivers (such as global commodity prices), there could be an impact on some components of the business, and particularly with regard to the mining sector. However, the project pipeline for mining remains robust, growing, and there are several mining jobs being bid with two scheduled for completion in the next two quarters. As mentioned before, such effects continue to be somewhat mitigated by the diverse nature of the Company's product and service offerings, which typically results in the various customer segments not experiencing adverse business conditions at the same time.

Beyond these external and international factors, some key performance drivers remain:

- the ability of the Company to continue to retain high-quality staff;
- the development and application of new, disruptive technology and services such as UAV services and the application of geomatics (which embrace alternative schemes for information collection analysis and management), ;
- success of management efforts to further streamline the organization;
- competitive pricing (often a reflection of an innovative approach to the selected solution);
- management's ability and skill in developing the Company's market presence and in delivering client service and design-build projects;
- tight control of project and overhead costs, assisted by information management systems and preferential pricing offered by suppliers and partners;

- adequate and available working capital
- financial design of projects to reduce working capital demands;
- maintenance of a high level of customer satisfaction; and
- ongoing strong commitment to environmental and social responsibility.

In the near term, successful execution with respect to these performance drivers is expected to result in a return to the positive cash flow and earnings that the Company recorded historically over many years prior to the RTO, and shortly thereafter a return to revenue and profit growth.

Capability to Deliver Results

Board of Directors

The Board of Directors consists of five members, four of whom are independent. The independent directors reflect a wide range of expertise – financial, entrepreneurial, operational, and governance – both inside and outside the environmental sector. The Company is actively recruiting one or two additional board members.

Executive Management

The Executive Management team comprises: Roger M. Woeller, CEO; Nell van Walsum, President, Professional Services group; Dan Scroggins, President, Water Systems group; and Vivian Karaiskos, Chief Financial Officer. Vivian Karaiskos replaced Ian Malone effective February 2, 2015 on his retirement. This team is supported by well-qualified and highly experienced individuals leading business development and operations. BluMetric has strong representation in each of the Company's branch offices and major service sectors.

Employees

The Company has a team of approximately 155 full-time equivalent staff. Staffing levels fluctuate seasonally with the hiring of temporary staff (primarily students) to meet peak demand periods.

Diversity

The Company has a history of commitment to cultural and gender diversity, the latter in recognition of the superior results that can be expected to flow from embracing the benefits of the intellectual knowledge, skills and experience of both genders. Nell van Walsum, president of the Professional Services group and Vivian Karaiskos, CFO represent two of four members of the Executive Management team. Jane Pagel, a director of the Company, is Chair of the Nominating and Governance Committee and will take appropriate initiatives to improve gender balance at the board level as a matter of course.

The Company intends to be in compliance with pending regulatory changes in this area of governance, as quickly as feasible following formal imposition of such changes.

Results of Operations

For the three months ended December 31, 2014 and 2013

Highlights First Quarter 2015

	Three Months Ended			
	Dec 30, 2014	Dec 31, 2013	Change	Change
	$	$	$	%
Revenue	7,779,364	7,624,771	154,593	2%
Gross margin	1,724,631	1,629,536	95,095	6%
Gross margin %	22%	21%		
SG&A expenses	1,435,295	1,480,591	(45,296)	-3%
Net income	113,770	17,979	95,791	533%
Common shares outstanding	25,191,656	25,191,656		
Net loss per share	0.00	0.00		
Total assets	13,075,509	17,698,938		
Working capital	(1,964,308)	(1,410,137)		
Long term debt	3,384,758	2,403,566		
Shareholders' equity (deficit)	(344,282)	6,355,207		

Note: Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for December 31, 2014.

Revenues in the first quarter were $7,779,364, compared with $7,624,771 for the quarter ended December 31, 2013, an increase of $154,593 or 2%. The higher revenue was largely a reflection of a high level of utilization in Professional Services. Conversely the Water Systems Group experienced delays in some contracts but acceleration in others specifically in the design build sector. The gross margin period-over-period increased 1% from 21% to 22% in the quarter ended December 31, 2014, reflecting a shift in corporate focus to higher-margin business and improved efficiencies in both groups.

The revenue split between the Water Systems and Professional Services groups was 26% and 74% respectively, compared to 34% and 66% for Q1 2014.

Activity in the Professional Services group was intensive during the quarter. The Water Systems group was behind targeted revenue, but reported an improvement in margin primarily as a result of cost reductions from an improved engineering and production structure, headcount reductions and improved project management.

SG&A expenses in the Q1 2015 of $1,435,295 were reduced from $1,480,591 incurred during Q1 2014 and reflect continuation of the measures implemented to reduce overhead, including a series of staff reductions, office consolidations and associated expenses.

Finance costs of $164,637 were substantially higher than the $118,542 reported for the three months ended December 31, 2013, reflecting higher credit utilization and increased interest rates applicable to a number of the Company's debt obligations. Interest costs are expected to be higher going forward, reflecting adverse changes to some of the Company's banking arrangements.

The net income for the quarter was $113,770 compared with net income of $17,979 for the comparable prior quarter, which given the elements of restructuring and soft Water Systems group revenues is a solid improvement. This income is largely attributed to increased efficiencies and margin improvement in both groups but specifically in the Professional Services group.

Shareholders' deficit improved slightly to $344,282 at December 31, 2014 compared to a deficit of $512,842 as at September 30, 2014, reflecting the impact of the reported income.

The Consolidated Statement of Financial Position as at December 31, 2014 reflects a working capital deficit of approximately $2.0 million which is an improvement from the $2.4 million reported at September 30, 2014. Working capital at both dates includes long-term bank debt/mortgages that have been re-classified as current (result of cross-default triggered by the Company's failure to meet its financial covenants

Segmented Information

Revenue

	For the three months ended December 31	
	2014	2013
	$	$
Professional Services	**5,734,325**	5,013,852
Water Systems	**2,045,039**	2,610,919
	7,779,364	7,624,771

Geographical Segmentation

The Company operates in three principal geographical areas, Canada (country of domicile), the United States, and other international, which represent wide distribution.

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 December 31	
	2014	2013
	$	$
Canada	**6,822,915**	6,693,005
International	**750,407**	776,473
United States	**206,042**	155,293
	7,779,364	7,624,771

Technology and Innovation

The Company operates in a business environment (environmental geosciences and engineering, water treatment, occupational health and safety, etc.) and market areas (a wide variety of industrial sectors) that are continually being influenced by technological advancement and innovation, improvements in best practices, changes in environmental regulatory requirements, and the like. The future success of the Company will be partially dependent upon its ability to continue to expand its knowledge in the fields in which it operates.

The Company will continue to maintain its investment in traditional product and service lines but a modest and focused investment in emerging products, services, and technology will be made to secure our future and to keep us on the cutting edge of our business. Emphasis on identification and development of disruptive technologies will support this strategy. *"A disruptive technology is a significant innovation, discovery or technology that creates new markets and displaces a previous technology or manual process."* The Company will continue to adopt and strengthen its position as it relates to new and disruptive technologies and services. Examples of the early success of this strategy include:

- The development of our geomatics service area which has extensively displaced photogrametry and other more traditional methods of data collection and analysis (we have improved software and software analytical capability and staff to the program),
- We are adding rainfall intensity measurement to our flood prediction and hydrological services, far superior to static rain gauge approaches through strategic partnership,
- We have adapted drone or UAV technology to displace more traditional, expensive and restricted data collection platforms such as manned helicopters and light fixed wing aircraft. To this end we have purchased a second UAV and tasked it to agriculture, aggregate, mining, drainage projects.
- We have invested in the testing and design of our membrane bioreactor systems (COBRA TM) in conjunction with our variable depth reactor for industrial and domestic

waste water treatment and received our first order for the food processing industry in Central America coupled to our patented Variable Depth Reactor (VDR).
- We completed the prototyping, de-risking and development of the first commercial site for the H4 TM (Heavy Oil Recovery Process) for maritime bunkering and thermo-electric generation facilities. The facility is currently operating to capacity.
- We are currently in the process of patent protection for a process that involves ammonia reduction to extremely low levels.
- We are engaged in an initiative with technology partners to develop treatment technology in a manner similar to the patented ammonia treatment process to treat cyanide to coming extremely low discharge standards

These investments represented a very modest investment in excess of $100,000 in FY2014 but will extend into 2015 in an accelerated form with our partners.

Cost Reduction and Margin Improvement Strategies

The Company is actively pursuing growth and expects certain costs to increase in advance of revenue growth. That said, the Company continues to review its cost structure with a view to optimizing internal efficiency.

As indicated above, the Professional Services group must continue to perform as it has done historically and in this first quarter of FY2015 and for the short term focus on continued margin improvement, whereas the Water Systems group has been extensively modified to operate at both higher levels of revenue growth and greater efficiency.

The process undertaken is being accomplished in two phases. First, management identified where immediate cost savings could be achieved and rapidly implemented this measures. The second phase involves management introducing longer term structural and process changes (including the implementation of more robust information systems) to drive an increase in margins.

Details are described below by group.

Professional Services Group

- Appointed a Manager of Operations to tighten process and focus on project management. The increase in gross margins has been realized with the identification of opportunity and efficiency;
- Administrative tasks of senior staff will be reduced by reallocating tasks to office administration staff. Utilization rates of senior staff have been increased accordingly;
- Centralized support functions for contract administration and human resources will be implemented;
- Project reporting will be improved to ensure timely information for project managers by project and by service area.

Water Systems Group

- Appointed Manager of Operations and Engineering in May 2014 to report directly to the President of the group;
- Consolidated production and manufacturing for all four Water Systems group business lines under a single Manager of Production at one location resulting in improved utilization of staff and clearer lines of authority;
- Diverted heavy manufacturing off-shore close to client sites where appropriate, while maintaining the high IP functions in Ottawa, including the ability to prototype;
- Reduced occupancy costs. Water Systems group space has been reduced from 28,000 to 14,500 square feet;
- Consolidated engineering, project management, and production at Carp Road, Ottawa.
- Projects are all now structured to minimize working capital demands and optimize cash flow. All new projects undergo rigorous assessment before selection and contracting and are being quoted at a minimum gross margin;
- Improve project management processes. Process flow from sale to commissioning has been formalized and is clearly shown for all staff. Reporting tools from finance will continue to be developed and modified to provide project managers with timely information regarding project profitability;
- We have developed and will continue to develop standardized products and processes to offer a service that is specific to clients' needs but with processes based on standard designs or standard component parts. We have optimized our engineering process to offer readily available designs into customized solutions.

Sales and Marketing

Historically, the Company's business has been developed largely through existing client relationships, word-of-mouth, and marketplace presence.

The Company has expanded its Corporate Development function to guide overall business development and growth initiatives (both organic and merger and acquisition activities), and to introduce major sales opportunities to operating units and provide marketing materials, market research, and similar kinds of support. As indicated above in the strategic intent section, the operating premise for FY2015 is to focus on servicing a strong and loyal client base and to broadening these relationships to strengthen recurring revenues. We have and will continue to add to our highly competitive and disruptive services to this end and replace those that are less profitable.

The Business Development team will be supported by a proposal generation group. This group began in FY2014 and has a greater than 50% success rate on submissions to date. Further development of this group is planned for FY2015.

Professional Services

The Professional Services group is targeting a modest growth in revenue over fiscal 2014. Such an increase is historically supported. As mentioned above, the focus will continue to be gross margin improvements.

Water Systems

The Water Systems group has four main areas of business and has implemented a well-defined business development structure to exploit these areas. The target continues to be to achieve a "stretch" objective for FY2015 of developing an additional $10 million of new work. Steps supporting this target were outlined above, with the following additional items:

- One senior manager has the responsibility and authority to monitor and drive the pipeline and guide pipeline conversion opportunities into backlog projects for the balance of FY2015;
- A new Chief Growth Officer for the Water Systems Group, hired in the third quarter of FY2014 has identified and will continue to identify and promote future product offerings, opportunities, and projects; and
- Business development investment is expected to be focused in areas of demand, specifically but not exclusively including the following:
  - Mining;
  - Food and Beverage;
  - Land development and wastewater treatment; and
  - Energy (thermo-electric waste treatment and BOD conversion).

Quarterly Results – $000's (Except Earnings (Loss) per share)

Quarterly financial information for the eight quarters ended December 31, 2014
(in 000's, except as otherwise indicated)

	Q1 2015 Dec 31, 2014	Q4 2014 Sep 30, 2014	Q3 2014 June 30, 2014	Q2 2014 Mar 31, 2014
Revenue	7,779	6,568	6,498	6,618
Cost of sales	6,055	5,684	5,149	5,675
Gross margin	1,725	884	1,349	943
Gross margin %	22%	13%	21%	14%
SG&A expenses	1,435	2,009	1,506	1,790
Finance costs	165	156	127	137
Net income (loss)	114	(5,681)	(291)	(985)
Weighted average common shares	25,191,656	25,191,656	25,191,656	25,191,656
Income (loss) per share	0.00	(0.23)	(0.01)	(0.04)

	Q1 2014 Dec 31, 2013	Q4 2013 Sept 30, 2013[1]	Q3 2013 May 31, 2013	Q2 2013 Feb 28, 2013
Revenue	7,625	11,948	7,267	6,024
Cost of sales	5,995	10,045	6,016	4,945
Gross margin	1,630	1,903	1,251	1,079
Gross margin %	21%	16%	17%	18%
SG&A expenses	1,481	2,946	1,971	1,466
Finance costs	119	123	52	73
Net income (loss)	18	(1,229)	(773)	(490)
Weighted average common shares	25,191,656	25,191,656	25,191,656	25,191,656
Income (loss) per share	0.00	(0.05)	(0.03)	(0.02)

(1) 4 month period

Note: Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for December 31, 2014.

Quarterly Trend Analysis

The Corporation changed its year end from August 31, 2013 to September 30, 2013 and consequently the current and comparative quarters are misaligned by one month. As a result of these factors, comparisons with prior periods may not provide a meaningful indication of relative performance. In addition, there are differences of a seasonal nature which are more prevalent in the Professional Services group than in the Water Systems group, which further affect comparative analysis.

Historically, the Company's business has followed a seasonal cycle which dictated that its former quarters, ended February 28 and May 31 respectively, experienced relatively lower levels of activity when compared to the balance of the year. This seasonal cycle is partly weather-related, as it is easier and more productive to conduct outdoor environmental investigations, site remediation activities, and various construction-related projects in Canada during the summer; additionally, the December holiday downtime period can have a significant impact on the level of activity possible in that quarter each year (1st Quarter BluMetric) depending on how it falls in the month.

Gross margin is typically lowest in the winter and spring quarters, and highest in the summer and fall quarters. This pattern reflects the reality that the Company's staff as a whole can achieve much higher "utilization" (percentage of time actively engaged in revenue-producing projects) during the summer and fall quarters.

Q2 14 vs Q2 13:
Second quarter 2014 results reflect consolidated revenue of $6.6 million and a gross margin of $943,000 (14%). SG&A expenses increased from $1.5 million in 2013 to $1.8 million in the quarter ended March 31, 2014. The net loss for Q2 14 was $985,000 compared to $490,000 in Q2 13.

Q3 14 vs Q3 13:
Third quarter 2014 results reflect a slight decline in revenues, from $7.3 million for the three months ended May 31, 2013 to $6.5 million for the three months ended June 30, 2014. Gross margins were 21% for the quarter ended June 30, 2014, and 17% for the quarter ended May 31, 2013. The improvements reflect a shift in management focus to improving margins at the expense of near-term growth objectives. Third quarter SG&A expenses also declined to $1.5 million from $1.8 million in the prior quarter and were lower than for the comparable 2013 quarter. The net loss for the period was $291,000 compared with a net loss of $773,000 for the comparable 2013 period.

Q4 14 vs Q4 13:
Fourth quarter 2014 results report revenue of $6.6 million, which is lower than the four-month 2013 quarter. SG&A expenses were lower than for the four months ended September 30, 2013, but higher than reported for the immediately prior quarter, mainly due to an increase in bad debt expense for some receivables, mainly foreign ones (Mexico) deemed uncollectible and an increase in office and related expenses.

Liquidity

The Corporation had a working capital deficit of $2.0 million at December 31, 2014, compared to the working capital deficit of $2.4 million at September 30, 2014.

The Company has an operating line-of-credit facility, provided by a Canadian chartered bank, with a limit of $2.0 million under normal margin and compliance requirements. While the Company is fully compliant with asset coverage requirements, it is not in compliance with bank financial covenants, which has resulted in a cross default of term loans provided by the bank such that approximately $667,000 had to be re-classified as current liabilities, which contributed significantly to the working capital deficit at period end.

The Company is taking several steps to improve its working capital position, including the following:

- Pursuing additional leverage of the Company's other assets; and
- Planning for additional equity or quasi-equity funding.

There can be no assurance that the Company will be successful in any or all of these efforts.

The recurring seasonal/cyclical patterns of the business typically result in one unprofitable quarter (January – March), one roughly break-even quarter (April – June), and two successive profitable quarters (July – December) in each fiscal year. Use of bank lines of credit generally increases during the busier and more-profitable period of each year, and cash usage reduces during the slower periods of the year as receivables are collected and expenses decline. With the smoothing of revenues, seasonal swings in revenue and cash usage are expected to moderate.

Business Outlook

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

The Company's operating performance is subject to internal factors, which can be controlled, and external factors, which are less controllable, but can in some cases be anticipated and corrective action taken.

External Environment

The Company primarily operates in Canada and in South America, and through Q1 2015 has continued to see signs of a significant increase in activity in the United States. The latter activity primarily comprises sale of wastewater treatment, and until recently water treatment, facilities. Typical clients for wastewater treatment plants are municipalities in the U.S. and Canada; mines in remote locations; and food processing and resort complexes in Latin America. Typical clients for water treatment plants are mines and industrial manufacturers who require clean water as part of their manufacturing process but are precluded from using the region's fresh-water resources for environmental reasons. This would potentially be a reverse osmosis facility using salt water input, for example. We have not included this highly competitive "fresh-water market" in our strategic approach for FY2014 and going forward outside of development of our Canadian military applications.

Internal Environment

The Professional Services group is managing its field staff more closely and focusing on developing growth areas such as geomatics, hydrology, northern projects, mining sector projects, and water and wastewater treatment projects (with synergies with the Water Systems Group) specifically in the mining, food and beverage, and development sectors. As has been noted elsewhere, the winter months are typically the slowest months in the Professional Services group,.

The Water Systems group made significant progress in getting costs under control in fiscal year 2014 by cutting at least two layers out of the management structure, better aligning headcount, and rationalizing occupancy costs. Cost reductions began to be felt in late FY2014 and have continued into FY2015. In 2015, this group's activities will focus on pushing higher value-add products into existing and new markets and retaining high IP and prototyping capacity in Canada. The development and sales of our COBRA and H4 systems reflect this approach in the immediate term going forward. Our outsourcing of heavy manufacturing, such as tankage and large assembly to a limited number of specialty subcontractors has bettered our margins by reducing production and transportation costs without compromising quality. South and Central America were targeted geographically in FY2014 and this focus continues into FY2015, as in the previously announced Panama Canal project.

Corporate Focus

In the coming quarters, the Company is targeting organic revenue growth as well as growth through association and co-venturing with technology suppliers in allied fields and sectors. This will require:

- Continuing to improve margins and tightly manage overhead, with careful cost-structuring in existing operations and branch offices in both groups;
- Maintaining margins in the Professional Services group and growing Water Systems group preliminarily with the existing technical and sales staff;
- Supporting and increasing the existing client base;
- Focusing our attention on the Americas and the Canadian north;
- Selectively increasing staff complements in existing operations in high-growth and high-margin pursuits to increase revenues and gross margins and build earnings; and
- Partnering with complementary businesses that also have disruptive or compelling technology in strategically important sectors or locations.

The BluMetric Project Pipeline is updated on a bi-monthly schedule and forms the basis of all predicted project-related business. No single forecasting tool can adequately represent what can be expected from this vibrant and expanding business, but the Company is trying to provide a representation of the potential growth management sees within reach.

The Pipeline as constituted assumes the Company will have generated sufficient working capital to support the underlying activities necessary to achieve the respective targets. The key to BluMetric's progress as a company is a joint effort generated by continued profitable performance by the Professional Services group, and revenue and margin growth in the Water Systems group, both making maximum use of the existing infrastructure

In developing the Pipeline, BluMetric management saw strategic benefit in having the two BluMetric groups working in concert for business development and technical/scientific problem solving and engineering design. Business development has been shown to benefit from intergroup opportunity identification and generation, while client delivery has benefitted from the combined technical and scientific and engineering problem solving expertise of both groups.

There is additional background input for both backlog and pipeline estimates, as below:

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

Backlog

The backlog for the Water Systems group going into fiscal year 2015 was approximately $10.0 million broken out as follows: $6.0 million for Military and $4.0 million for design-build, standard products, and after-market support. Substantial progress was made during the first quarter of 2015 with respect to launching design-build contracts.

Pipeline

The total value of all potential projects within the Water System group pipeline has grown marginally over Q1 2015. It currently exceeds $47 million. However, only a portion of these potential projects can be expected to convert to revenue. Management has a system of weighting the probability of jobs which results in a projected potential value in the $15-20 million range for fiscal 2015 (i.e. potentially booked in fiscal 2015, with revenue recognized in fiscal 2016). The pipeline especially as it relates to international projects is solid in its numerical valuation but somewhat less predictable in its timing. This expectation has been included in our forecasting to the best of our ability, but given current trends in the economy, as well as the continuing fragility of the recovery in the U.S., there can be no assurance that these opportunities will materialize.

Capital Resources

The Company had a shareholder deficit at the end of Q1 2015, largely as a result of a non cash impairment charge of goodwill of $4.3 million that was taken in Q4 2014, as well as continuing negative earnings. However, despite the working capital deficit, management is continuing to explore opportunities to raise additional capital to support corporate growth.

While ongoing fixed asset needs are modest, and typically relate to purchase of computer and office equipment for either replacement purposes or to equip new staff, the Company's future growth strategy contemplates both business acquisitions and internal growth. Accordingly, the Company may opportunistically approach the capital markets for additional equity funding if conditions are favourable.

Business Risks

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

- The Company's continuing ability to negotiate and secure contracts, and to maintain or grow revenues organically and through strategic alliances, mergers. and/or acquisitions;
- The Company's ability to control costs and to maintain positive and increased profit margins;
- Reliance on key personnel;
- The ability to grow revenues through network of sales representatives, particularly in the US;
- The ability to maintain the working capital line of credit at the current or a higher level;
- Competition from companies which are better-financed; and
- Sustained economic recovery in the U.S.

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 fair market value.

On November 15, 2012, the Company reached agreement with a number of creditors with respect to repayment terms for outstanding amounts payable, in the aggregate amount of $958,285. Of this amount, $450,452 is owed to related parties. The agreement requires the Company to repay this amount on a monthly basis, with blended payments of $22,947 principal and interest at 7% per annum such that repayment in full will be effected in four years. A gain on restructuring was recognized in the thirteen-month period ended September 30, 2013 in the amount of $133,754. Effective March 1, 2013, payments were suspended and the outstanding balances have been postponed in favour of the Company's bank.

Proposed Transactions and Subsequent Events

As at December 31, 2014 there were no significant assets or business acquisitions or dispositions being considered by the Company.

Inter-Corporate Relationships

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

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, note and loans payable, long term debt and the convertible debenture. In order to maintain or adjust its capital structure, the Company could issue new shares, or obtain new debt. To date, no dividends have been paid to the Company's shareholders and none are planned.

The Company's goal is to achieve a debt to equity ratio not in excess of 2:1. There has been no change to the Company's approach to capital management during the quarter ended December 31, 2014.

Summary of Outstanding Shares and Dilutive Instruments

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

Shares:	25,191,656 common shares
Warrants:	65,691 broker warrants
Options:	2,037,408 options

Additional Information

Additional information on the Company can be found at www.blumetric.ca and at www.sedar.com

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 for ensuring that management fulfills its responsibility principally through its Audit Committee.